SOLVENCY AND FINANCIAL CONDITION REPORT 2018

Phoenix Group Holdings plc
For the year ended 31 December 2018

PHOENIX GROUP

CONTENTS

SUMMARY

INTRODUCTION AND BACKGROUND

Phoenix Group is Europe's largest life and pensions consolidator. It specialises in the acquisition and management of closed life insurance and pension funds, known as the Heritage business. The Group also has an Open business which manufactures and underwrites new products and policies to support people saving for their future in areas such as workplace pensions and self-invested personal pensions.

As part of the Group's activities to re-domicile its headquarters to the UK, on 12 December 2018, by way of a scheme of arrangement, a new holding company for the Group was put in place (Phoenix Group Holdings plc ('PGH plc')) to replace the old holding company Phoenix Group Holdings ('Old PGH').

PGH plc has the same Board that Old PGH had at the scheme of arrangement date. In addition, PGH plc has the same management, business and operations as Old PGH and there is no change to day-to-day operations of the business of the Group or its strategy.

Unless otherwise specified, references to 'Phoenix', 'Phoenix Group' or 'PGH Group' mean PGH plc and all its subsidiary undertakings. A simplified Group structure chart is presented in section A.1.2.1.

On 31 August 2018, the Group completed the acquisition of Standard Life Assurance Limited, Standard Life Pensions Fund Limited, Standard Life International Designated Activity Company, Vebnet (Holdings) Limited, Vebnet Limited, Standard Life Lifetime Mortgages Limited, Standard Life Assets and Employee Services Limited and Standard Life Investment Funds Limited (together known as 'the Standard Life Assurance businesses'). On the same date, the Group also entered into a strategic partnership with Standard Life Aberdeen plc ('SLA plc'). The Group's Open business is supported by this Strategic Partnership with SLA plc.

The £2,994 million acquisition was financed by total cash consideration of £1,971 million including the proceeds of a fully underwritten rights issue of £950 million, with the remaining cash consideration of £1,021 million funded by a mix of new debt and Phoenix's own resources. In addition, SLA plc took a 19.98% equity stake in the Enlarged Group on completion valued at £1,023 million, based on the share price at 31 August 2018.

As at 31 December 2018, the insurance subsidiaries (also referred to as 'the Life Companies') of the Group comprise the Phoenix Life insurance subsidiaries, being:

- Phoenix Life Limited ('PLL');
- Phoenix Life Assurance Limited ('PLAL'); and
- Abbey Life Assurance Company Limited ('ALAC');

together with the acquired Standard Life insurance subsidiaries:

- Standard Life Assurance Limited ('SLAL');
- Standard Life Pension Funds Limited ('SLPF'); and
- Standard Life International Designated Activity Company ('SLIDAC').

SLAL is a leading provider of long-term savings and investment propositions and is primarily based in the UK with further operations through branches in Ireland and Germany.

SLPF is a wholly owned subsidiary of SLAL. It transacts pension fund business and provides management services for pension funds.

During the year SLIDAC was a wholly owned Irish subsidiary of SLAL and sold international unit-linked investment bonds to customers in the UK. On 22 February 2019, PGH plc acquired the Company from SLAL. Further details are set out at the end of this Summary.

In addition, the Group also includes PA(GI) Limited ('PA(GI)'), an entity that wrote general insurance business in the past.

Since December 2017, the Group has held approval under a waiver from the PRA to prepare a single Group-wide SFCR (hereafter referred to as 'the Group SFCR') that contains the required information for the overall Group, PLL, PLAL, ALAC and PA(GI). At present, this waiver does not extend to the acquired Standard Life insurance subsidiaries and these entities have continued to produce solo SFCRs for the year ended 31 December 2018.

The Group SFCR includes detailed Group information as well as information on the Phoenix Life insurance subsidiaries to meet Solvency II requirements. Additional information for the acquired Standard Life insurance subsidiaries for the four-month period post acquisition is also included within the Group SFCR where relevant and this is noted in each section accordingly. Where appropriate, relevant cross references to the detail provided in the standalone solo SFCRs are provided alongside the accompanying Quantitative Reporting Templates ('QRTs'). These documents can be found on the Group's website.

The Group SFCR has been prepared in accordance with the PRA Rules and Solvency II regulations, hereafter referred to as 'the regulations'. The Group SFCR and the accompanying QRTs included in Appendices 1-5 provide detailed information on the Group, PA(GI) and the Phoenix Life insurance subsidiaries business and performance, system of governance, risk profile, valuation for solvency purposes and capital position.

BUSINESS AND PERFORMANCE

2018 was another successful year for the Group, with Phoenix continuing its track record of meeting or exceeding its publicly stated targets. As noted above, the acquisition of the Standard Life Assurance businesses was completed in August 2018. The acquisition brought additional scale to the Group's pre-existing UK Heritage business and has brought a significant Open business to Phoenix in the form of Standard Life branded Workplace pension, Retail pension and Wrap products.

BUSINESS AND PERFORMANCE CONTINUED

These products are predominantly capital-light unit-linked products delivered to the customer through the Strategic Partnership with SLA plc. Under this partnership, SLA plc will undertake sales, marketing and distribution for new business which Phoenix will underwrite and administer.

Phoenix also now has a European business, which contains both Heritage and Open business.

The integrations of the AXA Wealth and Abbey Life businesses, acquired in quarter four of 2016, were completed and the Group exceeded its original synergy targets for cost and capital benefits arising from these transactions.

The Group successfully entered the Bulk Purchase Annuity market with three transactions completed in 2018 with total contract liabilities of circa £800 million.

The Group generated an operating profit of £708 million in the year (2017: £368 million). The increase compared to the prior year is primarily driven by the inclusion of the Standard Life Assurance businesses for the four-month period post completion of the acquisition, together with the net positive impacts of management actions, experience and actuarial assumption changes during 2018.

The IFRS profit after tax attributable to owners was £410 million (2017: £(27) million loss). The increase primarily reflects the improved operating profit together with net positive economic variances arising on hedging positions held by the life companies to protect the Group's Solvency II surplus position and a gain recognised on acquisition of the Standard Life Assurance businesses of £141 million.

The performance of the Group and its insurance subsidiaries (including the Standard Life insurance subsidiaries for the four-month period) set out in section A is described using results as presented in the IFRS financial statements. The operating profit (which is a non-GAAP measure) is stated after adjustments to exclude the impact of short-term economic variances and items considered to occur outside the normal course of business. Further details of the components and the key drivers of the operating profit are included in section A.2.

SYSTEM OF GOVERNANCE

The PGH plc Board is responsible for the strategic direction of the Group and is accountable for compliance with Solvency II requirements. The insurance subsidiaries' Boards are responsible for managing the overall direction and performance of the companies. They are also ultimately accountable for compliance with the Solvency II requirements that relate to them.

The PGH plc and insurance subsidiaries' Boards are committed to high standards of corporate governance and are supported by the appropriate Board committees and Management committees. Further details of the governance structure of the Boards and its committees is included in section B.1.

During 2018, the Group completed activities to redomicile its headquarters to the UK. Firstly, on 31 January 2018, PGH became UK tax resident, having previously been Jersey resident for tax purposes. Since 31 January 2018, all Old PGH and PGH plc Board and committee meetings have subsequently been held in the UK.

Finally, on 12 December 2018, the Group received the necessary shareholder and regulatory approvals to put in place a new ultimate holding company for the Group, PGH plc, which is incorporated in the UK. PGH plc has the same Board which Old PGH had at the scheme of arrangement date. In addition, PGH plc has the same management, business and operations as Old PGH and there is no change to the day-to-day operations of the business of the Group or its strategy.

RISK PROFILE

Phoenix Group operates a standardised Risk Management Framework ('RMF') for the identification and assessment of the risks it may be exposed to and the amount of capital that should be held in relation to those exposures. The Group defines risk appetite (covering the level of risk it is willing to accept) in pursuit of its strategic objectives in the areas of policyholder security and conduct, earnings volatility, liquidity and the control environment.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess its capital requirements.

Following the 2016 acquisitions of the AXA Wealth and Abbey Life businesses, the Group obtained the PRA's approval to incorporate the acquired AXA Wealth business within the scope of the Group's Internal Model in March 2017. The capital assessment of the Abbey Life business remained on a Standard Formula basis as at 31 December 2017. The application to include the Abbey Life business into the Group's Internal Model was approved in March 2018.

Following the acquisition of the Standard Life Assurance businesses, the Group now operates two PRA approved Internal Models: a Phoenix Internal Model covering all of the pre-acquisition Phoenix entities and a Standard Life Internal Model covering SLAL and SLPF. The Irish life entity, SLIDAC, determines its capital requirements in accordance with the Standard Formula.

The Group therefore calculates its capital requirements on a partial Internal Model basis. Requirements calculated under the Standard Life Internal Model are aggregated with those calculated under the Phoenix Internal Model in determining the Group position, with no further allowance for diversification.

The chart below shows an indicative composition of the Group's undiversified Solvency Capital Requirement ('SCR') as at 31 December 2018. The largest component of the undiversified SCR is underwriting risk for the Group, which is the risk that the frequency or severity of insured events may be worse than expected and includes expenses risk.

Underwriting risk	35%
Market risk	28%
Credit risk	24%
Liquidity risk	0%
Operational risk	11%
Other risks	2%

RISK PROFILE CONTINUED

The definitions of the risk categories are provided in section C with further details on the SCR set out in section E.2.1.

A summary of the undiversified SCR of the Group and the insurance subsidiaries is also presented below.

The regulations set out three approaches for calculating Group solvency, 'Method 1' (this is the default accounting based consolidation method), 'Method 2' (the Deduction and Aggregation method); or a combination of Methods 1 and 2. Under Method 2, the solo Own Funds are aggregated, rather than a line by line accounting consolidation. The SCR is also aggregated with no allowance for diversification. The Group has PRA approval to use a combination of Methods 1 and 2 for consolidating its Group solvency results. Method 2 is used for all Standard Life insurance subsidiaries acquired and Method 1 is used for all other entities of the Group.

To present an indicative overall PGH Group view, the risk profile of the Phoenix Life insurance subsidiaries (Method 1 entities) is shown alongside the risk profile of the Standard Life insurance subsidiaries (Method 2 entities) in the table below. However, the risk capital is calculated on two different Internal Models (together with a Standard Formula component), each with different stress calibration assumptions and methodologies. To give an indicative exposure of the overall risk profile for the PGH Group, the risk profiles for each entity have been aggregated across the different risk types using a simple pro rata approach.

Risk profile of insurance subsidiaries and the Group	Section reference	PLL	PLAL	PA(GI)	PGH Group Method 1	SLAL	SLIDAC	SLPF	PGH Group Method 2	PGH Group Methods 1 and 2 Total
Underwriting risk	C.1	34%	42%	0%	**34%**	34%	49%	2%	**35%**	**35%**
Market risk	C.2	26%	20%	0%	**25%**	34%	48%	0%	**34%**	**28%**
Credit risk	C.3	27%	27%	0%	**26%**	20%	2%	98%	**20%**	**24%**
Liquidity risk	C.4	0%	0%	0%	**0%**	0%	0%	0%	**0%**	**0%**
Operational risk	C.5	11%	10%	100%	**11%**	12%	1%	0%	**11%**	**11%**
Other risks	C.6	2%	1%	0%	**4%**	0%	0%	0%	**0%**	**2%**
Total		100%	100%	100%	**100%**	100%	100%	100%	**100%**	**100%**

Significant business and other events during 2018 that impacted the risk profile of the Group and its insurance subsidiaries included:

- the acquisition of the Standard Life Assurance businesses and implementation of the Group's equity and currency hedging strategy to SLAL;
- the entry into a Strategic Partnership with SLA plc to deliver new business for the Group's Open operations;
- Bulk Purchase Annuity transactions completed by PLL;
- a transfer under Part VII of the Financial Services and Markets Act 2000, of the majority of assets of ALAC to PLL and;
- the closure of the FCA review on treatment of long-standing customers in ALAC.

VALUATION FOR SOLVENCY PURPOSES

For the purposes of Solvency II reporting, the Group applies the Solvency II valuation rules to value its assets, technical provisions and other liabilities. The principle that underlies the valuation methodology for Solvency II purposes is to recognise assets and liabilities at an amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

The excess of assets over liabilities measured on a Solvency II basis for the Group and its insurance subsidiaries is set out in the table below:

31 December 2018	PLL £m	PLAL £m	ALAC £m	PA(GI) £m	SLAL £m	SLIDAC £m	SLPF £m	Other Group entities £m	Consolidation and other adjustments £m	PGH Group
Excess of assets over liabilities	4,216	2,014	4	67	5,392	116	9	21,917	(22,854)	10,881

Section D provides further information on the description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities, including explanations of material differences between IFRS and Solvency II.

CAPITAL MANAGEMENT

At 31 December 2018, the capital position for PGH and its insurance subsidiaries (including the acquired Standard Life Assurance businesses) is presented in the table below:

31 December 2018	PLL	PLAL	ALAC	PA(GI)	SLAL	SLIDAC	SLPF	Other Group entities[1]	Consolidation and other adjustments[2]	PGH Group 31 December 2018	PGH Group 31 December 2017
Eligible Own Funds	4,081	1,598	4	67	4,203	115	9	23,738	(23,494)	10,323	6,672
SCR	(2,911)	(1,214)	–	(6)	(2,477)	(83)	(2)	(1,356)	964	(7,085)	(4,822)
Solvency II surplus	**1,170**	**384**	**4**	**61**	**1,726**	**32**	**7**	**22,382**	**(22,528)**	**3,238**	**1,850**
Ratio of Eligible Own Funds to SCR	**140%**	**132%**	**n/a**	**1,202%**	**170%**	**139%**	**545%**			**146%**	**138%**
Shareholder capital coverage ratio	**178%**	**156%**	**n/a**	**1,202%**	**186%**	**139%**	**545%**			**167%**	**164%**

1 Other Group entities includes the Eligible Own Funds of the Group's holding companies and non-insurance subsidiaries including unrestricted pension schemes, subordinated liabilities treated as capital for solvency purposes and other assets and liabilities.
2 Group consolidation adjustments includes the elimination of intercompany balances and participations.

The PGH Group and its insurance subsidiaries held Own Funds in excess of both the SCR and MCR throughout the reporting period and therefore fully complied with the capital requirements.

Quality of Own Funds

Eligible Own Funds represent the available capital to support the SCR.

As at 31 December 2018, the Group's Solvency II surplus over the Group SCR is £3,238 million (2017: £1,850 million), with a ratio of Eligible Own Funds to SCR of 146% (2017: 138%) The surplus has increased during the period largely due to the acquisition of the Standard Life Assurance businesses which was financed through an equity raise and the issuance of capital qualifying debt, capital synergies achieved associated with the acquisition and the delivery of management actions; partly offset by the impact of dividends paid (including accrual for the 2018 final dividend), financing costs and net adverse economic and other variances.

76% (2017: 76%) of the Group's Eligible Own Funds are unrestricted Tier 1 and are principally comprised of ordinary share capital, share premium account related to ordinary share capital, surplus funds and the reconciliation reserve. This includes Transitional Measures on Technical Provisions ('TMTP') which are included in the calculation of Basic Own Funds as Tier 1 capital. The TMTP allows firms to apply a transitional deduction to their technical provisions. Transitional measures are aimed at providing a smooth transition between the technical provisions under the previous Solvency I regulatory regime and the technical provisions under the Solvency II regulatory regime in order to enhance stability in the insurance sector.

SLAL obtained regulatory approval to recalculate the benefits associated with TMTP as at 31 December 2018 and the impact of this recalculation is included within the PGH plc Solvency II surplus as at that date. The Phoenix Life insurance subsidiaries will not undertake a mandatory recalculation of TMTP until 31 December 2019.

Regulatory approval has also been received from the PRA for the application of Matching Adjustment to liabilities in the Matching Adjustment portfolios within PLL, PLAL and SLAL. The application of the Matching Adjustment allows insurers to use a (typically) higher discount rate when valuing liabilities that meet strict eligibility criteria, with the effect of increasing Own Funds and reducing the SCR.

Regulatory approval has also been received from the PRA for the application of the Volatility Adjustment in SLAL.

The impact of the TMTP, Matching Adjustment and Volatility Adjustment being set to zero is set out in section D.2.7.

Further details regarding the Group and each insurance subsidiaries' capital positions are set out in section E.1.

SCR by risk category

The SCR is the amount of capital an insurer is required to hold under the regulations. Further details are set out in section E.2.

Shareholder capital coverage ratio

In the calculation of the Solvency II surplus, the SCR of unsupported with-profit funds and the Group's pension schemes is included, but the related Eligible Own Funds are recognised only to a maximum of their respective SCR amounts. Surpluses that arise in unsupported with-profit funds and the pension schemes are therefore not recognised in the Solvency II surplus, as there is uncertainty as to the extent (if any) to which such surpluses will accrue to shareholders. However such surpluses are available to absorb economic shocks, thereby increasing resilience to economic stresses.

The Group focuses on the metric of shareholder capital coverage ratio, as a more appropriate measure of the extent to which shareholders' Eligible Own Funds cover the associated risk capital. It is defined as the ratio of Eligible Own Funds to SCR, after adjustment to exclude Own Funds and SCR amounts relating to unsupported with-profit funds and the PGL Pension Scheme.

As at 31 December 2018, the shareholder capital coverage ratio for the Group is 167% (2017: 164%).

CAPITAL MANAGEMENT CONTINUED

Sensitivities and scenario analysis

As part of the Group's internal risk management processes, the Solvency II surplus is tested against a number of financial scenarios. The results of that stress testing on the Group's and each of its main insurance subsidiaries' Solvency II surplus are provided below and demonstrate the resilience of the Solvency II surplus.

Solvency II Surplus £m	PLL	PLAL	SLAL	PGH Group
Base: 1 January 2019[1]	1,170	384	1,726	3,238
Following a 20% fall in equity markets	1,194	380	1,705	3,237
Following a 15% fall in property values	1,124	380	1,710	3,173
Following a 60bps interest rates rise[2]	1,116	420	1,734	3,227
Following a 80bps interest rates fall[2]	1,236	339	1,715	3,248
Following credit spread widening[3]	1,082	341	1,616	2,997
Following 6% decrease in annuitant mortality rates[4]	1,008	291	1,521	2,779
Following 10% increase in assurance mortality rates	1,079	387	1,705	3,129
Following a 10% change in lapse rates[5]	1,014	222	1,652	2,847

1 Assumes stress occurs on 1 January 2019.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 120bps spread widening across ratings and includes an allowance for defaults/downgrades.
4 Equivalent of six month increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

FUTURE DEVELOPMENTS

During 2019, the Group is mainly focused on integration activities related to the acquisition. Other priorities include:

- harmonisation of the Group's capital framework towards a single Group Internal Model;
- finalisation of implementation plans for a harmonised RMF for the Enlarged Group which combines the best of both from the Standard Life and Phoenix frameworks;
- seeking further investment opportunities in the bulk purchase annuity market as a complementary source of annuity back books;
- seeking new business growth in the Group's Open and European operations, including through the Strategic Partnership with SLA plc;
- seeking further acquisition opportunities; and
- looking for further ways to enhance the customer experience, ensuring a positive customer journey, with more focus on the use of the digital channel.

The Group will continue to identify and implement new management actions to enhance and maintain a robust capital position.

The risk remains that the Group will be impacted by macroeconomic uncertainty or the evolving regulatory environment. In addition, there remains great uncertainty about the timing and terms of the UK's withdrawal from the EU and the Group continues to closely monitor developments to understand any potential financial or operational implications.

EVENTS AFTER THE REPORTING PERIOD

On 22 February 2019, PGH plc acquired SLIDAC from SLAL. Initial consideration was £162 million and in the form of an intra-group loan liability assumed. On the same date PGH plc provided SLIDAC with share capital and share premium of £250 million.

On 29 March 2019, the SLAL Irish, German and Austrian policies were transferred to SLIDAC for £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ('the Scheme'), following approval by the High Court on 19 March 2019.

On the same date the Heritage With-Profit ('HWPF'), German post-demutualisation with-profits and German smooth-managed business were transferred back to SLAL via a reinsurance arrangement.

From the date of transfer, certain risks which were previously assessed under the Standard Life Internal Model will now be assessed under Standard Formula, in particular risks associated with policies that have not been transferred back to SLAL under the terms of the reinsurance arrangement.

DIRECTORS' RESPONSIBILITY STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT
PHOENIX GROUP HOLDINGS PLC

Approval by the Board of Directors of the Solvency and Financial Condition Report.

Financial period ended 31 December 2018.

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2018, the Group has complied in all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable to the Group; and

b) it is reasonable to believe that in respect of the period from 31 December 2018 to the date of the publication of the Group Solvency and Financial Condition Report (which excludes the acquired Standard Life insurance subsidiaries), the Group has continued so to comply and will continue so to comply in the future.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR AND GROUP DIRECTOR, SCOTLAND

For and on behalf of the Group Board of Directors

Date: 1 May 2019

PHOENIX LIFE LIMITED ('PLL'), PHOENIX LIFE ASSURANCE LIMITED ('PLAL') AND ABBEY LIFE ASSURANCE COMPANY LIMITED ('ALAC') (TOGETHER 'THE PHOENIX LIFE COMPANIES')

Approval by the Board of Directors of the Solvency and Financial Condition Report.

Financial period ended 31 December 2018.

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report for the Phoenix Life Companies in all material respects in accordance with the PRA Rules and the Solvency II regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2018, the Phoenix Life Companies have complied in all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable to the Phoenix Life Companies; and

b) it is reasonable to believe that in respect of the period from 31 December 2018 to the date of the publication of the Group Solvency and Financial Condition Report (which excludes the acquired Standard Life insurance subsidiaries), the Phoenix Life Companies have continued so to comply and will continue so to comply in the future.

ANDREW MOSS
PHOENIX LIFE – CHIEF EXECUTIVE OFFICER AND GROUP DIRECTOR, HERITAGE BUSINESS

DAVID R CHEESEMAN
PHOENIX LIFE – FINANCE DIRECTOR

For and on behalf of the Board of Directors of the Phoenix Life Companies

Date: 1 May 2019

DIRECTORS' RESPONSIBILITY STATEMENT CONTINUED

PA(GI) LIMITED ('PA(GI)')

Approval by the Board of Directors of the Solvency and Financial Condition Report.

Financial period ended 31 December 2018.

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report for PA(GI) in all material respects in accordance with the PRA Rules and the Solvency II regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2018, PA(GI) has complied in all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable to PA(GI); and

b) it is reasonable to believe that in respect of the period from 31 December 2018 to the date of the publication of the Group Solvency and Financial Condition Report (which excludes the acquired Standard Life insurance subsidiaries), PA(GI) has continued so to comply and will continue so to comply in the future.

RAKESH THAKRAR
PA(GI) DIRECTOR

ANDREW MOSS
PA(GI) DIRECTOR

For and on behalf of the Board of Directors of PA(GI)

Date: 1 May 2019

STANDARD LIFE ASSURANCE LIMITED ('SLAL'), STANDARD LIFE INTERNATIONAL DESIGNATED ACTIVITY COMPANY LIMITED ('SLIDAC') AND STANDARD LIFE PENSION FUNDS LIMITED ('SLPF')

Separate Directors' responsibility statements for SLAL, SLIDAC and SLPF are included in their respective solo SFCRs.

AUDITOR'S REPORT

AUDITOR'S REPORT

Report of the independent external auditor to the Directors of Phoenix Group Holdings ('the Group') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by **Phoenix Group Holdings plc** ('the Group'), comprising of Phoenix Group Holdings plc and the authorised insurance entities **Phoenix Life Limited ('PLL'), Phoenix Life Assurance Limited ('PLAL') and Abbey Life Assurance Company Limited ('ALAC')** as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Group as at 31 December 2018 (**'the Narrative Disclosures subject to audit'**); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 (**'the Group Templates subject to audit'**); and
- Company templates (**'the Company Templates subject to audit'**) of
  - PLL and PLAL S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01 and S.28.01.01; and
  - ALAC S.02.01.02, S.23.01.01 and S.28.01.01

The Narrative Disclosures subject to audit and the Group and Company Templates subject to audit are collectively referred to as the **'relevant elements of the Group Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- Information contained within the relevant elements of the Group Solvency and Financial Condition Report set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report where it relates to the Group SCR and Solo SCRs of PLL, PLAL, ALAC;
- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;
- Group templates S.05.01.02, S.05.02.02 and S.25.02.22;
- Company templates of PLL and PLAL S.05.01.02 and S.25.03.21;
- Company templates of ALAC S.05.01.02;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the Transitional Measures on Technical Provisions as set out in the Appendix to this report;
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations. ('the sectoral information)'; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report (**'the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of **Phoenix Group Holdings plc** as at **31 December 2018** is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is not appropriate; or
- The Directors have not disclosed in the Group Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Group Solvency and Financial Condition Report is authorised for issue.

AUDITOR'S REPORT CONTINUED

Emphasis of Matter – Basis of Accounting & Restriction on Use

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Group Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Group Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Group Solvency and Financial Condition Report or a material misstatement of the Other Information. 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.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA and the PRA Rules and Solvency regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group Solvency and Financial Condition Report 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 it 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 decision-making or the judgement of the users taken on the basis of the Group Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx. The same responsibilities apply to the audit of the Group Solvency and Financial Condition Report.

AUDITOR'S REPORT CONTINUED

Other Matter

The Group has authority to calculate its Group Solvency Capital Requirement using a partial Internal Model ('the Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion and in accordance with PRA Rules, we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Group's application or approval order.

Report on other legal and regulatory requirements

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Part of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Phoenix Group Holdings plc, PLL, PLAL and ALAC statutory financial statements. 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.

Ernst & Young LLP

ERNST & YOUNG LLP

LONDON
1 MAY 2019

The maintenance and integrity of the Phoenix Group Holdings plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

AUDITOR'S REPORT CONTINUED

Appendix – Relevant Elements of the Group Solvency and Financial Condition Report that are not subject to audit

Phoenix Group Holdings plc

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of Group template S.02.01.02:

- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – index-linked and unit-linked – risk margin

The following elements of Group template S.22.01.22:

- Column C0030 – Impact of transitional on technical provisions
- Row R0010 – Technical provisions
- Row R0090 – Solvency Capital Requirement

The following elements of Group template S.23.01.22:

- Row R0020: Non-available called but not paid in ordinary share capital at group level
- Row R0080: Non-available surplus at group level
- Row R0100: Non-available preference shares at group level
- Row R0120: Non-available share premium account related to preference shares at group level
- Row R0150: Non-available subordinated liabilities at group level
- Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
- Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
- Row R0210: Non-available minority interests at group level
- Row R0380: Non-available ancillary own funds at group level
- Rows R0410 to R0440 – Own funds of other financial sectors
- Row R0680: Group SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- Row R0750: Other non available own funds

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Phoenix Life Limited

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0110 to R0130 – amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – impact of transitional measure on technical provisions
  - Row R0010 – technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01:
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

AUDITOR'S REPORT CONTINUED

Appendix – Relevant Elements of the Group Solvency and Financial Condition Report that are not subject to audit CONTINUED

Phoenix Life Assurance Limited

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – index-linked and unit-linked – risk margin
- The following elements of template S.12.01.02:
  - Row R0100: Technical provisions calculated as a sum of BE and RM – risk margin
  - Rows R0110 to R0130 – amount of transitional measure on technical provisions
- The following elements of template S.22.01.21:
  - Column C0030 – impact of transitional measure on technical provisions
  - Row R0010 – technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of template S.23.01.01:
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01:
  - Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Abbey Life Assurance Company Limited

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of template S.23.01.01:
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01:
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

BASIS OF PREPARATION

OVERVIEW

The disclosures in the Group SFCR and the QRTs have been prepared in accordance with all applicable PRA Rules and Solvency II regulations, hereafter referred to as 'the regulations'.

Some sections of the SFCR (including in some sections of A and D) require information based on the recognition and measurement principles applicable under the relevant Generally Accepted Accounting Principles ('GAAP') as presented in the financial statements. The Phoenix Group consolidated financial statements and the financial statements of the insurance subsidiaries are prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). The consolidated financial statements were previously prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'). As at 31 December 2018 there were no differences between IFRS Standards issued by the EU and those issued by the IASB in terms of their application to the Group.

NEW GROUP HOLDING COMPANY

Under a scheme of arrangement in accordance with section 86 of the Cayman Islands Companies Law between Phoenix Group Holdings ('Old PGH'), the former ultimate parent company of the Group and its shareholders, all of the issued shares in Old PGH were cancelled and an equivalent number of new shares in Old PGH were issued to PGH plc in consideration for the allotment to Old PGH shareholders of one ordinary share in PGH plc for each ordinary share in Old PGH that they held on the scheme record date 12 December 2018.

The scheme of arrangement had the effect of PGH plc being inserted above Old PGH in the Group legal entity organisational structure and constitutes a group reconstruction. In the PGH Group IFRS financial statements for the year ended 31 December 2018, it has been accounted for in accordance with the principles of a reverse acquisition under IFRS 3 Business Combinations. In applying the principles of reverse acquisition accounting, the consolidated financial statements in the PGH Group Annual Report and Accounts for the year ended 31 December 2018 have been presented as a continuation of the Old PGH business and the Group is presented as if PGH plc had always been the ultimate parent company.

The comparative equity structure has been restated to reflect the difference between the par value of shares issued by PGH plc (£39 million) and the shares issued by Old PGH (£nil) prior to the share for share exchange, with a corresponding adjustment to share premium.

A consistent approach has been adopted in the Group SFCR with that applied in the IFRS financial statements. Consequently, the comparatives stated in this document reflect those of Old PGH and do not require restatement due to the Group being presented as if PGH plc had always been the ultimate parent undertaking.

TREATMENT OF THE ACQUIRED STANDARD LIFE INSURANCE SUBSIDIARIES

The Group SFCR contains information relating to the overall Group and Phoenix Life insurance subsidiaries. It also includes in some sections where relevant, additional information in respect of the acquired Standard Life insurance subsidiaries.

Full detailed information regarding the Standard Life insurance subsidiaries can be found within the underlying solo SLAL, SLIDAC and SLPF SFCRs.

Section A: Business and performance information for the acquired Standard Life insurance subsidiaries is provided in section A, for the four-month period from 1 September 2018 to 31 December 2018 (from completion of the acquisition). Given the acquisition completion date, prior year comparative business and performance information for the Group does not include the acquired Standard Life insurance subsidiaries.

Section B: The system of governance in section B presents the state of the Group's governance framework as at 31 December 2018. Certain areas within the Group's system of governance however, are currently in the process of being harmonised across Phoenix and Standard Life post acquisition and these are noted within the Group and solo SFCRs accordingly.

Section C: This section covers the risks associated with the Group and Phoenix Life insurance subsidiaries with relevant cross references to the Standard Life solo SFCRs for further details.

Sections D and E: Following the acquisition, the Group now operates two PRA approved Internal Models, a Phoenix Internal Model covering all the pre-acquisition Phoenix entities and a Standard Life Internal Model covering SLAL and SLPF. The Irish entity, SLIDAC, determines its capital requirements in accordance with the Standard Formula. The Group therefore calculates its capital requirements in accordance with a partial Internal Model – with the Phoenix Life entities based on the Phoenix Internal Model, SLAL and SLPF based on the Standard Life Internal Model and SLIDAC based on Standard Formula.

Sections D and E focus on the Phoenix Internal Model where relevant and cross references are included to the solo SFCRs for further details of the Standard Life Internal Model.

The Group has approval to use a combination of Methods 1 (the default accounting based consolidation method) and 2 'Deduction and Aggregation' for consolidating its Group solvency results. Method 2 is used for all Standard Life entities acquired and Method 1 is used for all other entities of the Group. As the Standard Life entities are included in the Group Solvency calculation under Method 2, they are presented as a single line on the Group's balance sheet being 'holdings in related undertakings, including participations' rather than being consolidated on a line by line basis with any double count of capital removed. Further details regarding this approach are included in sections D and E. The SCR of the Standard Life insurance subsidiaries is presented as a single line on the S.25.02.22 QRT as 'SCR included via Deduction and Aggregation ('D and A') and also presented in total in the table in Section E.2.

PRESENTATION

The Group SFCR is presented in pound sterling (£) rounded to the nearest million, which is consistent with the presentation in the IFRS consolidated financial statements of PGH plc. The QRTs included within the Appendices are presented in pound sterling (£) rounded to the nearest thousand.

Certain financial information in the SFCR has been rounded. As a result of the rounding, the totals in the tables presented in this SFCR may vary slightly from the data presented in the QRTs in Appendices 1-5.

Comparatives are included in sections A and E, as required by the regulations.

The Group SFCR excludes disclosures required by the regulations which are not applicable to the PGH Group and its insurance subsidiaries, which include, but are not limited to:

- information on non-life business as the Group only has life business;
- information on Solvency II Insurance Special Purpose Vehicles ('SPVs');
- information on the transitional measures on risk-free interest rates as none of the insurance subsidiaries in the Group have applied these measures; and
- Standard Formula and full Internal Model QRTs and related disclosures as the PGH Group SCR at 31 December 2018 was calculated partially on a Standard Formula (for SLIDAC) and partially on two Internal Model bases (covering the pre-acquisition Phoenix entities and the Standard Life Internal Model covering SLAL and SLPF).

SECTION A
BUSINESS AND PERFORMANCE

IN THIS SECTION

SECTION A

BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Information regarding the Group and its insurance subsidiaries

PGH has a Premium Listing on the London Stock Exchange and as at year end 31 December 2018, was a member of the FTSE 250 Index. On 18 March 2019, the Group was admitted to the FTSE 100 Index.

All of the Group's insurance subsidiaries are private companies limited by shares incorporated, registered and domiciled in the UK, with the exception of SLIDAC which is registered and domiciled in Ireland.

The UK domiciled entities are all regulated by the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA'). Some of PGH's non-insurance subsidiaries are also regulated by the FCA.

SLIDAC is regulated by the Central Bank of Ireland ('CBI'), but also the FCA for its conduct of business rules.

Contact details for the PRA, FCA and CBI are provided below:

Bank of England
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Financial Conduct Authority
25 The North Colonnade
London
E14 5HS

Central Bank of Ireland
North Wall Quay
Spencer Dock
Dublin, Ireland

The name and contact details of the external auditors for PGH and its insurance subsidiaries are provided below:

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Ernst & Young LLP
Harcourt Centre
2 Harcourt Street
Saint Kevin's
Dublin
Ireland

A.1.2 Legal and organisational structure of the Group

A.1.2.1 Legal structure of the Group

As at 31 December 2018, SLA plc is the only shareholder of PGH which held a direct qualifying holding representing 10% or more of the capital or voting rights.

The following notifications as at 31 December 2018 have been disclosed under the FCA's Disclosure Guidance and Transparency Rules in respect of notifiable interests exceeding 3% of the voting rights of the issued share capital.

As at 31 December 2018	% of total voting rights
Standard Life Aberdeen plc	19.98
Standard Life Aberdeen plc affiliated entities	6.95
BlackRock Inc.	5.15

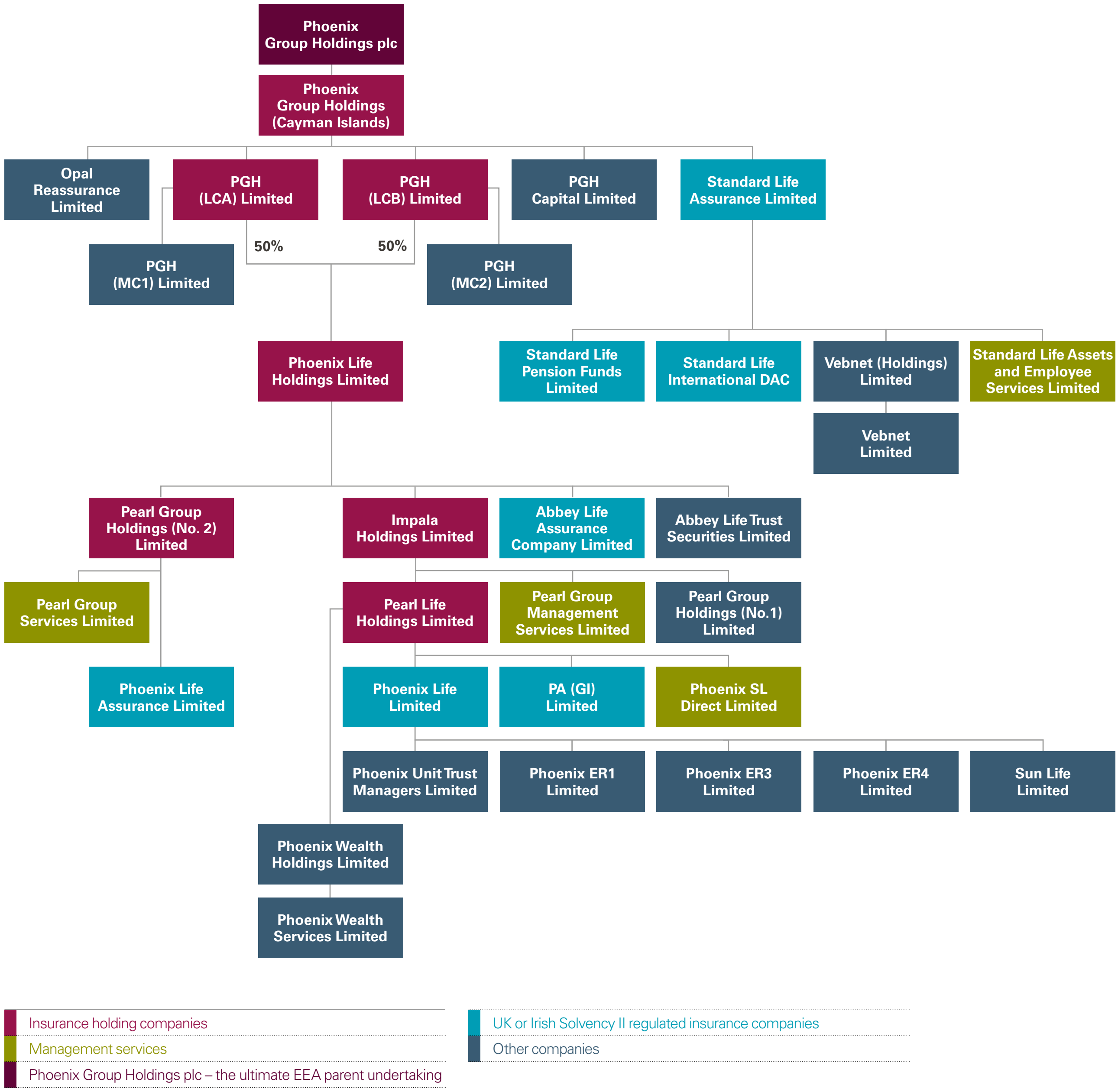
BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 Legal and organisational structure of the Group continued

A.1.2.1 Legal structure of the Group continued

A simplified Group structure chart as at 31 December 2018 is provided below, and shows PGH's position within the legal structure of the Phoenix Group. All shareholdings are 100% unless shown otherwise.



1 A complete listing of all the entities in the Group is included in Appendix 1.7.
2 De-authorisation from carrying out long-term insurance business for ALAC was requested on 22 January 2019.
3 On 22 February 2019, PGH plc acquired SLIDAC from SLAL. Initial consideration was £162 million and in the form of an intra-group loan liability assumed.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 Legal and organisational structure of the Group continued

A.1.2.2 Legal structure of the insurance subsidiaries

The position of PLL, PLAL, ALAC, PA(GI) as well as the Standard Life insurance subsidiaries in the Group structure is shown in the chart above. The persons who were direct or indirect holders of qualifying holdings (i.e. where a shareholder has 10% of more of voting rights) in each insurance subsidiary as at 31 December 2018 are set out in the structure chart.

The most significant change during the year was the inclusion of the acquired Standard Life insurance subsidiaries in the Group structure. Additionally a new UK-registered holding company, PGH plc, was put in place.

A.1.2.3 Material undertakings of the Group

A list of the material related undertakings and their immediate parent undertakings within the PGH Group are provided below. All undertakings are 100% owned by their immediate parent undertakings, except Phoenix Life Holdings Limited, which is jointly owned by its immediate parent undertakings. The table below also shows the subsidiaries of the Group's regulated insurance companies.

Entity name	Legal form	Type of undertaking[1]	Immediate parent undertaking	Country of incorporation[1]
Phoenix Group Holdings plc	Company limited by shares	Insurance holding company	n/a	GB
Phoenix Group Holdings (Cayman Islands)	Company limited by shares	Insurance holding company	Phoenix Group Holdings plc	Cayman Islands
Opal Reassurance Limited	Company limited by shares	Other related undertaking	Phoenix Group Holdings (Cayman Islands)	Bermuda
PGH (LCA) Limited	Company limited by shares	Insurance holding company	Phoenix Group Holdings (Cayman Islands)	GB
PGH (LCB) Limited	Company limited by shares	Insurance holding company	Phoenix Group Holdings (Cayman Islands)	GB
PGH Capital Limited	Company limited by shares	Other related undertaking	Phoenix Group Holdings (Cayman Islands)	GB
PGH (MC1) Limited	Company limited by shares	Other related undertaking	PGH (LCA) Limited	GB
PGH (MC2) Limited	Company limited by shares	Other related undertaking	PGH (LCB) Limited	GB
Phoenix Life Holdings Limited	Company limited by shares	Insurance holding company	PGH (LCA) Limited PGH (LCB) Limited	GB
Pearl Group Holdings (No.2) Limited	Company limited by shares	Insurance holding company	Phoenix Life Holdings Limited	GB
Impala Holdings Limited	Company limited by shares	Insurance holding company	Phoenix Life Holdings Limited	GB
Abbey Life Assurance Company Limited	Company limited by shares	Life insurance undertaking	Phoenix Life Holdings Limited	GB
Abbey Life Trust Securities Limited	Company limited by shares	Other related undertaking	Abbey Life Assurance Company Limited	GB
Pearl Group Services Limited	Company limited by shares	Ancillary services undertaking	Pearl Group Holdings (No.2) Limited	GB
Phoenix Life Assurance Limited	Company limited by shares	Life insurance undertaking	Pearl Group Holdings (No.2) Limited	GB
Pearl Life Holdings Limited	Company limited by shares	Insurance holding company	Impala Holdings Limited	GB
Pearl Group Management Services Limited	Company limited by shares	Ancillary services undertaking	Impala Holdings Limited	GB
Pearl Group Holdings (No.1) Limited	Company limited by shares	Other related undertaking	Impala Holdings Limited	GB

BUSINESS AND PERFORMANCE CONTINUED
A.1 BUSINESS CONTINUED
A.1.2 Legal and organisational structure of the Group continued
A.1.2.3 Material undertakings of the Group continued

Entity name	Legal form	Type of undertaking[1]	Immediate parent undertaking	Country of incorporation[1]
Phoenix Life Limited	Company limited by shares	Life insurance undertaking	Pearl Life Holdings Limited	GB
PA (GI) Limited	Company limited by shares	Non-life insurance undertaking	Pearl Life Holdings Limited	GB
Phoenix SL Direct Limited	Company limited by shares	Ancillary services undertaking	Pearl Life Holdings Limited	GB
Phoenix Wealth Holdings Limited	Company limited by shares	Insurance holding company	Pearl Life Holdings Limited	GB
Phoenix Unit Trust Managers Limited	Company limited by shares	UCITS management company	Phoenix Life Limited	GB
Phoenix ER1 Limited	Company limited by shares	Non-regulated undertaking carrying out financial activities	Phoenix Life Limited	GB
Phoenix ER3 Limited	Company limited by shares	Non-regulated undertaking carrying out financial activities	Phoenix Life Limited	GB
Phoenix ER4 Limited	Company limited by shares	Non-regulated undertaking carrying out financial activities	Phoenix Life Limited	GB
SunLife Limited	Company limited by shares	Other related undertaking	Phoenix Life Limited	GB
Phoenix AW Limited	Company limited by shares	Other related undertaking	Phoenix Wealth Holdings Limited	GB
Phoenix Wealth Services Limited	Company limited by shares	Other related undertaking	Phoenix Wealth Holdings Limited	GB
Standard Life Assurance Limited	Company limited by shares	Life insurance undertaking	Phoenix Group Holdings (Cayman)	GB
Standard Life Lifetime Mortgages Limited	Company limited by shares	Non-regulated undertaking carrying out financial activities	Standard Life Assurance Limited	GB
Standard Life Pension Funds Limited	Company limited by shares	Life insurance undertaking	Standard Life Assurance Limited	GB
Standard Life International Designated Activity Company[2]	Company limited by shares	Life insurance undertaking	Standard Life Assurance Limited	Ireland
Standard Life Assets and Employee Services Limited	Company limited by shares	Ancillary services undertaking	Standard Life Assurance Limited	GB
Vebnet Limited	Company limited by shares	Other related undertaking	Standard Life Assurance Limited	GB

1 Type of undertaking and country of incorporation as defined for purposes of the QRT S.32.01, Undertakings in the scope of the Group (see Appendix 1.7).
2 On 22 February 2019, PGH plc acquired SLIDAC from SLAL, another subsidiary undertaking.

A.1.2.4 Governance and organisation
A clear organisational structure, with documented delegated authorities and responsibilities from the PGH Board and onwards to the Life Companies' Boards is in place.

The PGH Board is responsible for managing the overall direction and performance of the PGH Group, including the performance of the subsidiary companies. It is also ultimately accountable for compliance with the Solvency II regulations. Certain matters must be referred to the PGH Board in accordance with the PGH Board's 'Matters Reserved'.

The responsibility for managing the subsidiary companies rests with the respective companies' Boards, subject to the restrictions which are set by the PGH Board, as established within the 'Matters Reserved' by the PGH Board.

Further information on the governance structure is provided in section B.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.3 Material lines of business

The Group operates four material lines of insurance business based on the characteristics of the different products administered. The table below shows the relevant Lines of Business ('LoB') for each insurance subsidiary.

	PLL	PLAL	ALAC	SLAL	SLIDAC[1]	SLPF
Insurance with-profit participation	✓	✓	✓	✓	–	–
Index-linked and unit-linked insurance	✓	✓	✓	✓	✓	–
Health insurance	✓	–	–	–	–	–
Other life insurance	✓	✓	✓	✓	–	✓

1 Following the Part VII transfer of certain SLAL business to SLIDAC on 9 March 2019 detailed in section A.1.6.2 SLIDAC will include all types of LoB.

PA(GI) no longer writes general insurance business or has any material LoB. Reinsurance arrangements are in place with reinsurers external to the Phoenix Group to cover blocks of immediate annuities, some permanent health, critical illness, term assurance and unitised with-profit contracts. In addition reinsurance arrangements exist amongst Group companies as explained further in this document.

A.1.3.1 Insurance with-profit participation

The insurance with-profit participation LoB comprises conventional with-profit products and unitised with-profit products.

A with-profit or participating policy is one where the policyholder participates in the profits of the fund. An insurer aims to distribute part of its profit to the with-profit policyholders in the form of bonuses. The value of such distributions is based on, among other things, the performance of the underlying pool of assets. Policy pay-outs are generally subject to a minimum guarantee and are 'smoothed' to lessen the impact of changes in the underlying value of the assets in the short term. With-profit products are primarily either endowments or deferred annuities. Endowments may be single or regular premium policies with minimum guaranteed sums on death or maturity, while deferred annuities are accumulation vehicles for pensions with beneficial tax treatment at retirement age.

All with-profit policies are entitled to potential incremental bonuses throughout the life of the policy as well as a terminal, or final, bonus. The terminal bonus represents the policyholder's final share of the assets of the fund. Any available surplus held in a with-profit fund may only be used to meet the requirements of the fund itself or be distributed in defined proportions to the fund's policyholders and the Life Companies' shareholders. For example, the traditional with-profit fund with a 90:10 policyholder/shareholder split, entitles policyholders to a 90% share and its shareholders to a 10% share of the profits in any bonus declared. For certain of the Group's funds, the shareholders are not entitled to any share of such bonuses.

In certain 'supported' with-profit funds, the shareholders provide capital support to the fund. The capital is exposed to all economic movements until the estate is rebuilt to cover the required capital, at which point the fund becomes 'unsupported'.

A.1.3.2 Index-linked and unit-linked insurance

The value of unit-linked products is linked directly to the performance of the underlying assets. The policyholder typically bears all of the investment risk with unit-linked products. The benefits attributable to the policyholder are determined by reference to the investment performance of a specified pool of assets. The policyholder elects which units to purchase within a diversified open-ended fund. Unit-linked funds include personal and group pension plans and feature regular and single premium savings. They operate on a similar basis to mutual funds, with a fee often charged based on the value of the funds.

Customers do not legally own the underlying assets or the units themselves; they own a contract (the policy) with a right to a benefit. The value of that benefit is determined by reference to the price of their chosen fund.

The Group's unit-linked business comprises contracts with and without options and guarantees.

A.1.3.3 Health insurance

The Group's health insurance business comprises individual and group income protection products, income protection riders, standalone critical illness products and includes contracts with and without options and guarantees.

A.1.3.4 Other life insurance

This LoB includes all remaining underwritten business and comprises of conventional non-profit products, protection policies such as life and disability policies which pay out a lump sum on death or disability, group life, level and fixed escalation annuities in payment, deferred annuities and index-linked annuities.

The majority of the business included in this LoB is annuity business. Annuities generally provide a fixed specified income stream over the life of the policyholder. Annuities are mainly written within non-profit funds. For these annuities, the Life Companies are exposed to all investment and demographic risks and are generally entitled to retain 100% of the incremental investment returns from the assets backing this business.

Also included in this LoB is the SunLife branded whole of life protection products underwritten by PLL. SunLife offers whole of life cover direct to customers aged 50 and over through an in-house distribution company and through other distribution partners. The main SunLife products are the Guaranteed Over 50 plan which provides a cash lump sum upon death, which is typically used to cover funeral costs; and regular premium Funeral Plans, which are whole of life insurance policies which back the financial liability that third party funeral providers incur when they sell funeral packages to individuals.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.4 Material geographical areas

The Group's business is underwritten in the United Kingdom ('UK'), in Ireland (through SLIDAC and the SLAL Irish branch) and in Germany (through the SLAL German branch).

A.1.5 Significant business and other events

The following significant events took place during 2018 and up to the date of this report. Further details of significant business and other events in relation to the Standard Life insurance subsidiaries are included within the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

A.1.5.1 Acquisition of the Standard Life Assurance businesses

Phoenix completed the acquisition of the Standard Life Assurance businesses on 31 August 2018. The acquisition was funded through a £950 million rights issue completed in July 2018, the issuance of £500 million Tier 1 Notes in April 2018 and a €500 million Tier 2 bond in September 2018.

A.1.5.2 Bulk purchase annuity ('BPA') transactions

During 2018 the Group completed three BPA transactions totalling approximately £800 million in payment pension liabilities.

A.1.5.3 Completion of On-shoring

The on-shoring of the Group completed with PGH becoming UK resident for tax purposes in January 2018 and a new UK-registered holding company, PGH plc, put in place for the Group in December 2018.

A.1.5.4 Part VII transfer of ALAC to PLL

On 31 December 2018, all of the long term business and the majority of the assets and liabilities of ALAC were transferred to PLL for £nil consideration. This was in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 18 December 2018.

A.1.5.5 Financial Conduct Authority ('FCA') thematic reviews

Long-standing customers review

On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. Following the review, ALAC was subject to additional investigations.

On 14 December 2018, the Group was informed by the FCA that it had closed its investigation into ALAC in this regard, having found that the conduct of ALAC did not warrant enforcement action.

Non-advised annuity sales review

On 14 October 2016, the FCA published its thematic review of non-advised annuity sales. In its findings, the FCA identified concerns in a small number of firms (including ALAC) and the Group recognised provisions in respect of its best estimate of the likely costs associated with its obligations in this regard. In respect of the non-advised annuity sale, £10 million of the provision was utilised and £7 million was released during the year.

Under the terms of the ALAC acquisition, Deutsche Bank provided Phoenix Life Holding Limited ('PLHL') with an indemnity, with a duration of up to eight years, in respect of exposures that may arise in ALAC as a result of the FCA's final thematic review findings. The maximum amount that can be claimed under the indemnity is £175 million and it applies to all regulatory fines and to 80% to 90% of the costs of customer remediation. The indemnity would be expected to mitigate any additional costs not covered by the existing provision. At 31 December 2018, a reimbursement asset of £14 million (2017: £23 million) has been recognised in other receivables under this indemnity. Recoveries of £9 million have been received during the year.

Standard Life Assurance was also a participant in the thematic review of non-advised annuity sales. On acquisition, it was determined appropriate to recognise a provision of £225 million in respect of SLAL on a fair value basis.

SLA plc provided a deed of indemnity, with a duration of up to four years from the date of the acquisition, in respect of certain liabilities arising out of the investigation. To the extent that total costs post 31 August 2018 exceed £225 million, such amounts will be recoverable under the deed of indemnity and related caps up to a maximum of £155 million. To the extent that total costs are less than £225 million, Phoenix Group Holdings (Cayman Islands) is required to pay the balance to SLA plc, together with any interest that may have accrued on such sum. Of the £225 million recognised upon acquisition, £44 million has been utilised since the acquisition date, and £181 million remains as at 31 December 2018.

A.1.5.6 Move to a single outsourcer platform

Diligenta provides life and pension business process services to a number of the Group's policyholders. During 2018, the Group announced its intention to move to a single outsourcer platform and as a result a number of policies will be transferred to Diligenta by 31 December 2021.

A.1.5.7 PAWL deauthorisation

Following the Part VII transfer of PAWL to PLL with effect from 30 September 2017, PAWL's authorisation to carry out long term business was withdrawn with effect from 9 March 2018.

A.1.5.8 ALAC Internal Model application

application to expand the Group's Internal Model to include ALAC was approved by the PRA on 1 March 2018.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.6 Events after the reporting period

A.1.6.1 Sale of SLIDAC to PGH plc

On 22 February 2019, PGH plc acquired SLIDAC from SLAL. Initial consideration was £162 million in the form of an intra-group loan liability assumed. On the same date PGH plc provided SLIDAC with share capital and share premium of £250 million.

A.1.6.2 Part VII transfer of SLAL EU business to SLIDAC

On 29 March 2019, the SLAL Irish, German and Austrian policies were transferred to SLIDAC for £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ('the Scheme'), following approval by the High Court on 19 March 2019.

On the same date the Heritage With-Profit ('HWPF'), German post-demutualisation with-profits and German smooth-managed business were transferred back to SLAL via a reinsurance arrangement. From the date of transfer, certain risks which were previously assessed under the Standard Life Internal Model will now be assessed under Standard Formula, in particular risks associated with policies that have not been transferred back to SLAL under the terms of the reinsurance arrangement.

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE

A summary of the Group's and each insurance subsidiary's performance during the year is presented below and in sections A.3 and A.4. The information is presented on an operating profit basis and reconciled to the IFRS result in line with the financial statements.

The PGH Group information for the year ended 31 December 2018 in section A includes results of the Standard Life insurance subsidiaries for the four-month period from 1 September 2018 (from completion of the acquisition on 31 August 2018). Details of the full year financial information of the Standard Life insurance subsidiaries are included in the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

The PGH Group information for the year ended 31 December 2017 excludes results of the Standard Life insurance subsidiaries given the 31 August 2018 acquisition date.

Further details of the Group's operating profit metric is included below.

Year ended 31 December 2018	Section reference	PLL £m	PLAL £m	ALAC £m	PA(GI) £m	SLAL £m	SLIDAC £m	Other[1] £m	PGH Group £m
Operating profit	**A.2.1**	**378**	**97**	**14**	**–**	**187**	**1**	**31**	**708**
Investment return variances and economic assumption changes on long-term business	A.3.1	143	8	–	–	153	(1)	(21)	283
Variance on owners' funds	A.3.1	(16)	(5)	–	–	–	–	(171)	(192)
Total investment return variances and economic assumption changes	A.3.1	127	3	–	–	153	(1)	(192)	90
Other income and expense items:									
Amortisation of acquired-in-force business and other intangibles	A.4.1	(14)	–	–	–	–	–	(193)	(207)
Other non-operating items	A.4.1	84	(2)	(89)	2	(7)	–	(26)	(38)
Finance costs attributable to owners	A.4.1	(15)	–	–	–	–	–	(99)	(114)
Total other income and expenses	A.4.1	55	(2)	(89)	2	(7)	–	(318)	(359)
IFRS profit/(loss) before tax attributable to owners		**560**	**98**	**(75)**	**2**	**333**	**–**	**(479)**	**439**

1 Other items comprise performance of other entities in the PGH Group including SLPF and the impacts of consolidation adjustments at the PGH Group level.

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE CONTINUED

The Standard Life insurance subsidiaries were acquired by the Group on 31 August 2018 and as a result no comparatives are provided in the table below for the year ended 31 December 2017.

Year ended 31 December 2017	Section reference	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Operating profit/(loss)	A.2.1	210	25	154	–	–	(21)	368
Investment return variances and economic assumption changes on long-term business	A.3.1	(40)	4	56	–	–	(26)	(6)
Variance on owners' funds	A.3.1	(24)	(48)	–	–	–	(15)	(87)
Total investment return variances and economic assumption changes	A.3.1	(64)	(44)	56	–	–	(41)	(93)
Other income and expense items:								
Amortisation of acquired-in-force business and other intangibles	A.4.1	(25)	–	–	–	–	(94)	(119)
Other non-operating items	A.4.1	(171)	(4)	35	(53)	18	95	(80)
Finance costs attributable to owners	A.4.1	(15)	–	–	–	–	(89)	(104)
Total other income and expenses	A.4.1	(211)	(4)	35	(53)	18	(88)	(303)
IFRS profit/(loss) before tax attributable to owners		**(65)**	**(23)**	**245**	**(53)**	**18**	**(150)**	**(28)**

1 Other items comprise performance of other entities in the PGH Group and the impacts of consolidation adjustments at the PGH Group level.

The Group's operating profit split by material geographical area is as follows with the majority of operating profit generated in the UK. No comparative information is provided for the year end 31 December 2017 as prior to the acquisition of the Standard Life Assurance businesses, operating profit arising outside of the UK was de minimus.

Year ended 31 December 2018	UK £m	Germany £m	Ireland £m	PGH Group £m
Operating profit	**686**	**10**	**12**	**708**

Operating profit

The PGH Group reports a non-GAAP measure of performance being operating profit. Operating profit is used as a performance measure of the underwriting activities of the Group as well as a key metric to manage the business. Operating profit is considered an appropriate measure of the underlying performance of the Group's business as it excludes the impact of short-term economic volatility and other one-off items.

This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. It also includes the shareholder share of bonus of the with-profit funds.

Operating profit includes the effects of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Group's core operating activities (for example, actuarial modelling enhancements and data reviews). The operating profit excludes investment return variances and economic assumption changes, non-operating items considered to fall outside of the course of the Group's normal operations and shareholder tax.

The Group generated an operating profit of £708 million (2017: £368 million). The increase compared to the prior year is primarily driven by the inclusion of the Standard Life insurance subsidiaries for the four-month period post completion of the acquisition together with net positive impacts of management actions, experience and actuarial assumption changes during 2018.

Further details regarding operating profit are set out in the IFRS results section of the Business Review (page 35) and note B1 (page 133) of the PGH Group Annual Report and Accounts for the year ended 31 December 2018.

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE CONTINUED

Investment return variances and economic assumption changes

Variances between actual and expected investment returns and the impact of changes in economic assumptions on the valuation of liabilities are accounted for outside of the operating profit and presented in profit before tax attributable to owners.

Other income and expenses

Other income and expense items which are excluded from operating profit comprise:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities;
- amortisation and impairments of intangible assets (net of policyholder tax);
- finance costs attributable to owners;
- gains or losses on the acquisition or disposal of subsidiaries (net of related costs);
- the financial impacts of mandatory regulatory change;
- the profit or loss attributable to non-controlling interests;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Company's financial performance. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

Information on premiums, claims and expenses is not used as a primary measure of underwriting performance by the Group, however the relevant information split by LoB is presented in the S.05.01.02 QRT included in Appendix 1.2 for PGH Group, Appendix 2.2 for PLL, Appendix 3.2 for PLAL, Appendix 4.2 for ALAC and Appendices 1.2 for SLAL, SLPF and SLIDAC within the solo SFCRs (which reflects a full 12 months).

A.2.1 Analysis of operating profit

Operating profit incorporates an expected return. The expected return on investments 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 the swap curve at the 15 year duration plus 10bps at the start of the year. A risk premium of 350bps is added to the risk-free yield for equities (2017: 350bps), 250bps for properties (2017: 250bps), 150bps for other fixed interest assets (2017: 150bps) and 50bps for gilts (2017: 50bps).

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

	2018 %	2017 %
Equities	5.2	5.0
Properties	4.2	4.0
Gilts	2.2	2.0
Other fixed interest	3.2	3.0

BUSINESS AND PERFORMANCE CONTINUED
A.2 UNDERWRITING PERFORMANCE CONTINUED
A.2.1 Analysis of operating profit continued

An analysis of the overall operating profit split by material LoB is presented in the table below. Further detail regarding each entity and comparatives are provided in sections A.2.1.1 to A.2.1.6.

Year ended 31 December 2018	PLL £m	PLAL £m	ALAC £m	PA(GI) £m	SLAL £m	SLIDAC £m	Other[1] £m	PGH Group £m
Insurance with-profit participation	49	52	–	–	30	–	1	132
Index-linked and unit-linked insurance	122	3	12	–	44	1	21	203
Other life insurance (predominantly annuities and protection business)	185	46	–	–	117	–	7	355
Total operating profit by Line of Business	**356**	**101**	**12**	**–**	**191**	**1**	**29**	**690**
Long-term return on owners' funds and NP surplus assets	22	(4)	2	–	(4)	–	2	18
Total operating profit	**378**	**97**	**14**	**–**	**187**	**1**	**31**	**708**

1 Other items comprise performance of other entities in the PGH Group and the impacts of consolidation adjustments at the PGH Group level.

A.2.1.1 Operating profit – PLL

An analysis of the operating profit for PLL split by material LoB is presented below. Substantially all of the operating profit arises in the UK.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Insurance with-profit participation	49	53
Index-linked and unit-linked insurance	122	36
Other life insurance (predominantly annuities and protection business)	185	114
Total operating profit by Line of Business	**356**	**203**
Long-term return on owners' funds and NP surplus assets	22	7
Total operating profit	**378**	**210**

The operating profit of £49 million (2017: £53 million) on insurance with-profit participation business represents the shareholders' one-ninth share of the total bonuses of the 90:10 with-profit funds and is in line with the comparative period, with allowance for run-off of the book.

The operating profit on index-linked and unit-linked insurance of £122 million (2017: £36 million) largely arises from margins earned on unit-linked business of £81 million (2017: £46 million) which has increased following the reassurance of the ALAC business that was effective from 29 December 2017. In addition, operating profits arose of £31 million (2017: £3 million) due to model and methodology changes and profits of £10 million (2017: £(12)m loss) from demographic experience variances and assumption changes.

The operating profit on other life insurance of £185 million, (2017: £114 million) is generated from expected return of £57 million (2017: £43 million), £21 million from new business (2017: £(9) million loss), £20 million (2017: £(2) million loss) from model and methodology changes and £86 million (2017: £82 million) from demographic experience variances and assumption changes during the period.

The long-term return on owners' funds of £22 million (2017: £7 million) reflects the asset mix, which is primarily cash-based assets, fixed interest securities and interest receivable on loans to Group companies.

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE CONTINUED

A.2.1 Analysis of operating profit continued

A.2.1.2 Operating profit – PLAL

An analysis of the operating profit for PLAL split by material LoB is presented below. All of the operating profit arises in the UK.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Insurance with-profit participation	52	(46)
Index-linked and unit-linked insurance	3	–
Other life insurance (predominantly annuities and protection business)	46	68
Total operating profit by Line of Business	**101**	**22**
Long-term return on owners' funds and NP surplus assets	(4)	3
Total operating profit	**97**	**25**

The operating profit of £52 million (2017: £(46) million loss) on insurance with-profit participation business comprises the unsupported with-profit fund operating profit of £32 million (2017: £31 million) which is in line with comparative period and which represents the shareholders' one-ninth share of the policyholder bonuses; and the operating profit on with-profit funds where internal capital support has been provided of £20 million (2017: £(77) million loss). The profit is driven by a small overall weakening of actuarial assumptions including longevity and expenses, whereas in 2017, the loss was principally driven by the strengthening of actuarial assumptions of persistency for products with valuable guarantees and the associated assumptions in relation to late retirements.

The operating profit of £46 million (2017: £68 million) on other life insurance is generated from spreads earned on annuities, investment return, release of margins, non-economic experience variances and assumption changes, including £24 million (2017: £35 million) from a weakening of longevity assumptions to reflect the most recent CMI core projection tables.

The long-term return on owners' funds of £(4) million loss (2017: £3 million) reflects the asset mix, which is primarily cash-based assets and fixed interest securities.

A.2.1.3 Operating profit – ALAC

An analysis of the operating profit for ALAC split by material LoB is presented below. All of the operating profit arises in the UK.

	2018 £m	2017 £m
Index-linked and unit-linked insurance	12	52
Other life insurance (predominantly annuities and protection business)	–	89
Total operating profit by Line of Business	**12**	**141**
Long-term return on owners' funds and NP surplus assets	2	13
Total operating profit	**14**	**154**

The operating profit on index-linked and unit-linked insurance of £12 million (2017: £52 million) principally arises due to an update to the IFRS methodology to align with other entities within the Group. The non unit-linked business was reinsured to PLL on 29 December 2017 and so did not contribute to the result for the year.

The 2017 operating profit on other life insurance was generated from spreads earned on annuities and the release of margins of £23 million, the positive impact of updating longevity and mortality base and improvement assumptions of £27 million, the updates made to expense assumptions of £20 million and £16 million arising from modelling enhancements.

The long-term return on return on owners' funds of £2 million (2017: £13 million) reflects the asset mix which is primarily cash-based assets, and fixed interest securities.

A.2.1.4 Operating profit – PA(GI)

PA(GI) no longer writes insurance business and accordingly has nothing to report in terms of underwriting performance.

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE CONTINUED

A.2.1 Analysis of operating profit continued

A.2.1.5 Operating profit – SLAL, SLIDAC and SLPF

The operating profit of the PGH Group includes the results of the Standard Life insurance subsidiaries for the four-month period from 1 September 2018.

The operating profit on insurance with-profit participation business of £30 million and index-linked and unit-linked insurance business of £44 million from SLAL and £1 million from SLIDAC are driven by the revenue and expenses of the fee based business in the UK, Ireland and Germany.

Other life insurance of £117 million mainly relates to the spread/risk margin result less related expenses earned on the SLAL annuity business and a £102 million positive impact of updates to demographic assumptions, principally longevity.

The contribution of SLPF to the Group operating profit was nil for the four month period from 1 September 2018.

Details of the full year operating profit of SLAL, SLIDAC and SLPF are included within the solo SFCRs.

A.2.1.6 Operating profit – Other Group entities and consolidation adjustments

An analysis of the operating profit for other Group entities and Group consolidation adjustments is presented below.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Service Companies' operating profit	25	21
Holding Companies' costs	(20)	(20)
Consolidation adjustments	26	(22)
Total operating profit/(loss)	**31**	**(21)**

The operating profit for the Service Companies of £25 million (2017: £21 million) comprises income from the Life and holding companies in accordance with the respective Management Service Agreements ('MSAs') less fees related to the outsourcing of services and other operating costs.

Holding companies' costs were £(20) million (2017: £(20) million) in line with comparative period.

Consolidation adjustments of £26 million (2017: £(22) million) largely relate to the elimination of pre-acquisition intangibles amortisation for the acquired Standard Life Assurance businesses and intra-group transactions. The 2017 adjustments largely relate to the elimination of intra-group transactions, including transactions with the Group pension schemes.

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE

A.3.1 Analysis of investment return variances and economic assumption changes

Investment return variances and economic assumption changes represent the impact of short-term volatility and comprise:

Year ended 31 December 2018	PLL £m	PLAL £m	ALAC £m	PA(GI) £m	SLAL £m	SLIDAC £m	Other[1] £m	PGH Group £m
Investment return variances and economic assumption changes on long-term business	143	8	–	–	153	(1)	(21)	282
Variance on owners' funds	(16)	(5)	–	–	–	–	(171)	(192)
Total investment return variances and economic assumption changes	127	3	–	–	153	(1)	(192)	90

Year ended 31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Investment return variances and economic assumption changes on long-term business	(40)	4	56	–	–	(26)	(6)
Variance on owners' funds	(24)	(48)	–	–	–	(15)	(87)
Total investment return variances and economic assumption changes	(64)	(44)	56	–	–	(41)	(93)

1 Other items comprise performance of other entities in the PGH Group including SLPF and impacts of consolidation at the PGH Group level.

The investment performance measure used by the Group and each insurance subsidiary is investment return variances and economic assumption changes. These represent the impact of short-term volatility. Further details including comparatives for the Group and each insurance subsidiary are set out below.

A.3.1.1 Analysis of investment return variances and economic assumptions changes – PLL

The positive investment return variances and economic assumption changes on long-term business of £143 million (2017: £(40) million) are primarily driven by equity gains on hedging positions held by the Company following equity market losses in the period, whereas in 2017 equity market gains drove a loss on these hedging positions. The Company's exposure to equity movements arising from future with-profit bonuses and future unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

The negative variance on owners' funds of £(16) million (2017: £(24) million negative) is principally driven by interest rate swaption positions held in the shareholder fund. Such positions are held to hedge the impact of interest rate risk on the regulatory capital position.

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE CONTINUED

A.3.1 Analysis of investment return variances and economic assumption changes continued

A.3.1.2 Analysis of investment return variances and economic assumptions changes – PLAL

The investment return variances and economic assumption changes on long-term business are £8 million (2017: £4 million) and reflect the minor effects of yield and credit spread changes during the period.

The negative variance on owners' funds of £(5) million (2017: (48) million negative) is driven by losses on equity market hedging and losses on interest rate swaption positions held by the Company in the shareholder fund.

A.3.1.3 Analysis of investment return variances and economic assumptions changes – ALAC

Following the 2017 reinsurance transaction with PLL, ALAC experienced minimal investment return variances in 2018.

The 2017 positive investment return variances and economic assumption changes on long-term business of £56 million were primarily driven by equity market gains, tax benefits from the reinsurance transaction with PLL and updates to economic assumptions in de-risking products for equity market gains and updates to economic assumptions in de-risking products for corporate clients.

A.3.1.4 Analysis of investment return variances and economic assumptions changes – PA(GI)

Investment income of less than £1 million (2017: less than £1 million) arose from PA(GI)'s investment in collective investment schemes.

A.3.1.5 Analysis of investment return variances and economic assumptions changes – SLAL and SLIDAC

On completion of the acquisition, the Group's equity hedging strategy was implemented in SLAL. Therefore, the investment return variances and economic assumption changes on long-term business of £153 million were mainly attributable to an increase in fair value of derivatives held to protect the SLAL regulatory capital position against reductions in equity markets.

A full year analysis of investment return variances and economic assumptions changes for SLAL, SLIDAC, and SLPF is included in the solo SFCRs for the year ended 31 December 2018, within section A.3.

A.3.1.6 Analysis of investment return variances and economic assumptions changes – Other entities and consolidation adjustments

The negative investment return variances and economic assumptions changes on long term business of £(21) million (2017: £(26) million negative) are primarily driven by Group consolidation adjustments relating to the elimination of transactions between the PGL Pension Scheme and PLL and certain tax adjustments.

The negative variance on owners' funds of £(171) million (2017: £(15) million negative) is principally driven by realised losses on derivative instruments entered into by the holding companies to hedge exposure to equity risk arising from the Group's acquisition of the Standard Life Assurance businesses in the period between announcement and completion of the acquisition.

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE CONTINUED

A.3.2 Investment income and expenses

The tables below present the actual investment income split by asset class and the component of such income for the PGH Group and each insurance subsidiary including four month's contribution from the acquired Standard Life insurance subsidiaries. Expenses are shown in total as they all relate to investment management fees.

The actual investment return includes investment returns for the benefit of both policyholders and shareholders.

A.3.2.1 Investment income and expenses – PGH Group

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total PGH Group £m	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Investment income by asset category:												
Fixed and variable rate income securities	779	594	–	–	–	–	(681)	93	–	–	**98**	**687**
Equities	–	–	509	147	–	–	(8,249)	488	–	5	**(7,740)**	**640**
Loans and receivables	108	9	–	–	–	–	5	2	–	–	**113**	**11**
Derivatives	2	2	–	–	–	–	124	(12)	–	–	**126**	**(10)**
Collective investment schemes	3	1	201	152	–	–	(2,726)	1,686	74	50	**(2,448)**	**1,889**
Participations	–	–	745	487	–	–	(653)	1,121	–	18	**92**	**1,626**
Investment property	–	–	–	–	100	22	(9)	8	–	–	**91**	**30**
Cash and deposits	26	4	–	–	–	–	–	–	–	1	**26**	**5**
Other assets	13	1	–	–	–	–	3	4	5	2	**21**	**7**
Investment return	**931**	**611**	**1,455**	**786**	**100**	**22**	**(12,186)**	**3,390**	**79**	**76**	**(9,621)**	**4,885**
Investment expenses											**(263)**	**(160)**
Net investment return after deduction of investment expenses											**(9,884)**	**4,725**

The net investment return of £(9,884) million (2017: £4,725 million) for PGH Group reported above differs from the amount reported in the PGH Annual Report and Accounts for the year ended 31 December 2018 of £(9,600) million loss (2017: £4,986 million profit) as the amount disclosed above excludes the investment return attributable to minority interests in the consolidated investment funds.

The main driver for the decrease in investment return compared to the prior period is fair value losses arising in the period, mostly on equities and collective investment schemes held in the policyholder funds reflecting global equity market falls in 2018. This compares to equity market gains seen during 2017.

Amounts included as participations comprise collective investment undertakings where the Group holds a greater than 20% interest.

All investment gains and losses are recognised in the income statement. There are no amounts recognised directly in equity.

BUSINESS AND PERFORMANCE CONTINUED
A.3 INVESTMENT PERFORMANCE CONTINUED
A.3.2 Investment income and expenses continued
A.3.2.2 Investment income and expenses – PLL

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total PLL £m	
Year ended 31 December 2018	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Investment income by asset category:												
Fixed and variable rate income securities	345	309	–	–	–	–	(295)	88	–	–	**50**	**397**
Equities	–	–	9	12	–	–	(8)	5	–	–	**1**	**17**
Loans and receivables	67	28	–	–	–	–	39	2	–	–	**106**	**30**
Derivatives	–	–	–	–	–	–	(111)	(22)	–	–	**(111)**	**(22)**
Collective investment schemes	–	–	152	35	–	–	(426)	636	66	26	**(208)**	**696**
Participations	–	–	374	407	–	–	(1,137)	1,045	–	18	**(763)**	**1,470**
Investment property	–	–	–	–	22	22	12	15	–	–	**34**	**37**
Cash and deposits	5	2	–	–	–	–	–	–	–	1	**5**	**3**
Other assets	–	1	–	–	–	–	–	6	9	(4)	**9**	**3**
Investment return	**417**	**340**	**535**	**454**	**22**	**22**	**(1,926)**	**1,775**	**75**	**41**	**(877)**	**2,632**
Investment expenses											**(133)**	**(88)**
Net investment return after deduction of investment expenses											**(1,010)**	**2,544**

The net investment return of £(1,010) million (2017: £2,544 million) includes investment returns attributable to policyholders and shareholders.

The main driver for the decrease in investment return compared to the prior year is the impact of movements in equity markets on net fair value gains and losses on collective investment schemes. The increases in collective investment schemes income and investment expenses are as a result of the Part VII transfer of the assets and liabilities of PAWL into PLL.

Amounts included as participations comprise collective investment undertakings where PLL holds a greater than 20% interest.

BUSINESS AND PERFORMANCE CONTINUED
A.3 INVESTMENT PERFORMANCE CONTINUED
A.3.2 Investment income and expenses continued
A.3.2.3 Investment income and expenses – PLAL

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total PLAL £m	
Year ended 31 December 2018	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Investment income by asset category:												
Fixed and variable rate income securities	120	129	–	–	–	–	(126)	20	–	–	**(6)**	**149**
Equities	–	–	5	3	–	–	49	38	–	5	**54**	**46**
Loans and receivables	2	13	–	–	–	–	–	–	–	–	**2**	**13**
Derivatives	–	–	–	–	–	–	(86)	10	–	–	**(86)**	**10**
Collective investment schemes	–	–	39	39	–	–	(100)	235	3	4	**(58)**	**278**
Participations	–	–	76	69	–	–	(125)	44	–	–	**(49)**	**113**
Investment property	–	–	–	–	–	–	2	(7)	–	–	**2**	**(7)**
Cash and deposits	4	2	–	–	–	–	–	–	–	–	**4**	**2**
Other assets	–	–	–	–	–	–	–	(2)	2	2	**2**	**–**
Investment return	**126**	**144**	**120**	**111**	**–**	**–**	**(386)**	**338**	**5**	**11**	**(135)**	**604**
Investment expenses											**(21)**	**(26)**
Net investment return after deduction of investment expenses											**(156)**	**578**

The net investment return of £(156) million (2017: £578 million) includes investment returns attributable to policyholders and shareholders.

The main driver for the decrease in investment return compared to the prior year is the impact of movements in equity markets on net fair value gains and losses collective investment schemes.

Amounts included as participations comprise collective investment undertakings where PLAL holds a greater than 20% interest.

BUSINESS AND PERFORMANCE CONTINUED
A.3 INVESTMENT PERFORMANCE CONTINUED
A.3.2 Investment income and expenses continued
A.3.2.4 Investment income and expenses – ALAC

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total ALAC £m	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Investment income by asset category:												
Fixed and variable rate income securities	7	111	–	–	–	–	(5)	4	–	–	**2**	**115**
Equities	–	–	139	132	–	–	(351)	445	–	–	**(212)**	**577**
Loans and receivables	1	2	–	–	–	–	(2)	–	–	–	**(1)**	**2**
Derivatives	–	–	–	–	–	–	(2)	15	–	–	**(2)**	**15**
Collective investment schemes	–	–	4	3	–	–	(3)	113	19	20	**20**	**136**
Participations	–	–	10	16	–	–	(93)	32	–	–	**(83)**	**48**
Investment property	–	–	–	–	1	–	1	–	–	–	**2**	**–**
Cash and deposits	–	(1)	–	–	–	–	–	–	–	–	**–**	**(1)**
Other assets	–	–	–	–	–	–	–	–	7	8	**7**	**8**
Investment return	**8**	**112**	**153**	**151**	**1**	**–**	**(455)**	**609**	**26**	**28**	**(267)**	**900**
Investment expenses											**(68)**	**(12)**
Net investment return after deduction of investment expenses											**(335)**	**888**

The net investment return of £(335) million (2017: £888 million) includes investment returns attributable to policyholders and shareholders.

The majority of income in 2018 was in unit-linked funds, for the benefit of policyholders. The main driver for the decrease in investment return compared to the prior year is the impact of movements in equity markets on net fair value gains and losses on equities and collective investment schemes. The reduction in interest income in 2018 compared to 2017 is due to the transfer of fixed interest assets (c.£2.5 billion) to PLL under a reinsurance agreement in December 2017. The increase in investment expenses is as a result of annual management charge income being reassured to PLL (categorised as investment management expenses).

Amounts included as participations comprise collective investment undertakings where ALAC holds a greater than 20% interest.

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE CONTINUED

A.3.2 Investment income and expenses continued

A.3.2.5 Investment income and expenses – PA(GI)

There was a small element (less than £1 million) of investment income arising from PA(GI)'s investment in collective investment schemes.

A.3.2.6 Investment income and expenses – SLAL, SLIDAC and SLPF

A full year analysis of investment income split by asset class and the component of such income for the Standard Life insurance subsidiaries is included in their solo SFCRs.

A.3.3 Information on securitisation

The Group has limited direct investments in securitisation vehicles within its shareholder and non-profit funds (excluding unit-linked funds) of £1,829 million as at 31 December 2018 (2017: £1,216 million). The total investment return on these investments is £43 million (2017: £27 million). A further breakdown is shown in the table below:

SLPF and SLIDAC have no investments in securitisations.

	PLL £m		PLAL £m		ALAC £m		SLAL £m		PGH Group £m	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Investments in securitisation	1,660	1,179	33	24	–	13	136	n/a	1,829	1,216
Investment return	41	27	1	(1)	–	1	1	n/a	43	27

Any indirect exposures via the collectives falls within the unit-linked and with-profit funds where such investments are held primarily for the benefit of the policyholders and are not deemed significant to the Group.

BUSINESS AND PERFORMANCE CONTINUED

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

Other material income and expense items for the year ended 31 December 2018 and 31 December 2017 are outlined below.

Year ended 31 December 2018	PLL £m	PLAL £m	ALAC £m	SLAL £m	SLIDAC £m	PA(GI) £m	Other[1] £m	PGH Group £m
Other income and expense items:								
Amortisation of acquired-in-force business and other intangibles	(14)	–	–	–	–	–	(193)	(207)
Other non-operating items	84	(2)	(89)	(7)	–	2	(26)	(38)
Finance costs attributable to owners	(15)	–	–	–	–	–	(99)	(114)
Total other income and expenses	**55**	**(2)**	**(89)**	**(7)**	**–**	**2**	**(318)**	**(359)**

Year ended 31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Other income and expense items:							
Amortisation of acquired-in-force business and other intangibles	(25)	–	–	–	–	(94)	(119)
Other non-operating items	(171)	(4)	35	(53)	18	95	(80)
Finance costs attributable to owners	(15)	–	–	–	–	(89)	(104)
Total other income and expenses	**(211)**	**(4)**	**35**	**(53)**	**18**	**(88)**	**(303)**

1 Other items comprise performance of SLPF, non-life entities in the Group and the impacts of consolidation adjustments at the PGH Group level.

A.4.1.1 Other income and expenses – PLL

Acquired in-force business of £388 million has been recognised on the IFRS balance sheet following various Part VII transfers into the Company from 2006 to 2012. This is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits. The remaining estimated life of the contracts is approximately 22 years. The amortisation charge for the period was £(14) million (2017: £(15) million). In addition, in 2017 a £(10) million loss was recognised in relation to business reassured from PAWL to PLL, which was transferred by Part VII to PLL in December 2017, resulting in full release of the AVIF asset.

Other non-operating items of £84 million include an £82 million gain in respect of the ALAC Part VII transfer, £49 million gain in respect of a strategic review of outsourcing relationships and a £(52) million loss in respect of charge capping for non-workplace pensions. The 2017 other non-operating items of £(171) million included a £(131) million loss on inception of the reinsurance agreements with ALAC and £(38) million loss in respect of the PAWL Part VII transfer.

Finance costs attributable to owners of £(15) million (2017: £(15) million) relate to a £200 million 7.25% unsecured subordinated loan, of which further details are included in section D.1.2.

A.4.1.2 Other income and expenses – PLAL

Other non-operating items of £(2) million loss (2017: £(4) million loss) relate to an increase in actuarial provisions.

BUSINESS AND PERFORMANCE CONTINUED

A.4 PERFORMANCE OF OTHER ACTIVITIES CONTINUED

A.4.1 Other material income and expenses continued

A.4.1.3 Other income and expenses – ALAC

Other non-operating items of £(89) million relate to the loss arising on completion of the Part VII transfer of the business to PLL and associated expenses.

A.4.1.4 Other income and expenses – SLAL and SLIDAC

Other non-operating items of £(7) million relate mainly to project costs including the Company's preparations for the UK leaving the EU.

Full year details of other income and expenses for the Standard Life insurance subsidiaries are included within the solo SFCRs within section A.4.

A.4.1.5 Other income and expenses – PA(GI)

Other non-operating items of £2 million reflect the net movement on balances related to redress exposures arising from creditor insurance policies underwritten by the company prior to 2006.

A.4.1.6 Other income and expenses – Other entities and consolidation adjustments

	Service Companies £m		Holding Companies £m		Consolidation adjustments and other entities £m		Total other £m	
Year ended 31 December	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Amortisation of acquired in-force business and other intangibles	–	–	–	–	(193)	(94)	(193)	(94)
Other non-operating items	3	–	(143)	(80)	114	175	(26)	95
Finance costs attributable to owners	–	–	(90)	(80)	(9)	(8)	(99)	(89)
Total other income and expenses	**3**	**–**	**(233)**	**(160)**	**(88)**	**74**	**(318)**	**(88)**

Acquired in-force business and other intangibles was £4.3 billion at the end of the year (gross of deferred tax), of which £2.8 billion relates to the Standard Life Assurance businesses acquired during 2018. The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates.

Other non-operating items of £(26) million (2017: £95 million) includes a gain on acquisition of £141 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the Standard Life Assurance businesses offset by costs of £59 million associated with the equalisation of accrued Guaranteed Minimum Pension benefits within the Group's pension schemes, costs of £43 million associated with the acquisition of the Standard Life Assurance businesses, £7 million incurred under the ongoing transition programme, costs of £15 million associated with the move to a single, digitally enhanced outsourcer platform and net other one-off items totalling £43 million including other corporate project costs.

Finance costs attributable to owners of £99 million (2017: £89 million) have increased by £11 million, comprising a £15 million increase in other finance costs reflecting debt issuances during the year, partially offset by £5 million decrease in bank finance costs driven by the repayment of bank debt.

BUSINESS AND PERFORMANCE CONTINUED
A.4 PERFORMANCE OF OTHER ACTIVITIES CONTINUED
A.4.2 Leasing arrangements

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. PLL, PLAL and ALAC have operating leases both as lessor and as lessee. SLAL has operating leases as a lessor. PA(GI), SLIDAC and SLPF have no lease arrangements.

There are no finance leases.

The Group and Life Companies primarily leases out investment properties as lessor. Rental income from these operating leases is recognised as income in the consolidated income statement on a straight-line basis over the period of the lease.

Where the Group is the lessee, payments made under operating leases net of any incentives received from the lessor are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The table below presents the operating lease rental income and expense for the period, which is included in total investment return and within administrative expense.

Year ended 31 December	PLL		PLAL		ALAC		SLAL		Other Group entities		PGH Group	
£m	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Rental income	22	22	–	–	–	–	76	n/a	10	1	108	23
Rental expense	2	1	–	–	–	–	–	n/a	7	–	9	1

A.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding business and performance.

SECTION B

SYSTEM OF GOVERNANCE

IN THIS SECTION

SECTION B

SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

This section provides information on the system of governance in place for the PGH Group and Phoenix Life insurance subsidiaries. Any material changes that have taken place over the reporting period are also included. Details of the structure of the Boards are provided, with a description of their main roles and responsibilities and those of the relevant committees, as well as a description of the main accountabilities and responsibilities of all key functions.

Further details regarding the system of governance in place for the Standard Life insurance subsidiaries can be found in section B.1 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

B.1.1 System of governance

The objective of the Group's Governance Model is to ensure that management is empowered to run the business on a day-to-day basis in accordance with the delegated authority received from the respective Boards, whilst ensuring that Directors are able to discharge their statutory and regulatory responsibilities, and that the Boards have appropriate oversight and supervision of the Group's business. Accordingly, there is a clear organisational structure, with documented delegated authorities and responsibilities, from the PGH plc Board to the insurance subsidiary Boards and onwards to the Executive Committee ('ExCo') and divisional senior management.

There is a uniform model across the Group which sets the responsibilities of each Board and which also stipulates the matters reserved for each Board. Each Board has the power to manage the relevant subsidiary company in accordance with legislation (Companies Act), regulations (including the Listing, Prospectus and Disclosure Transparency Rules and the regulations of the FCA and the PRA), constitution (Memorandum and Articles of Association), and Governance Code (UK Corporate Governance Code). This also involves referral of certain matters to shareholders for approval. Therefore each Board:

- where relevant has the power to manage the insurance subsidiaries in accordance with laws and regulations;
- sets 'Matters Reserved' which is a schedule of items which must go to that Board for approval. This operates as an escalation route to ensure that relevant matters are referred up through the appropriate Board structures;
- delegates powers to Board committees through terms of reference; and
- delegates powers to Executive Directors and management through Delegations of Authority.

Management oversight committees support management in making decisions under the Delegations of Authority (and are also used to review proposals before they go to the Boards).

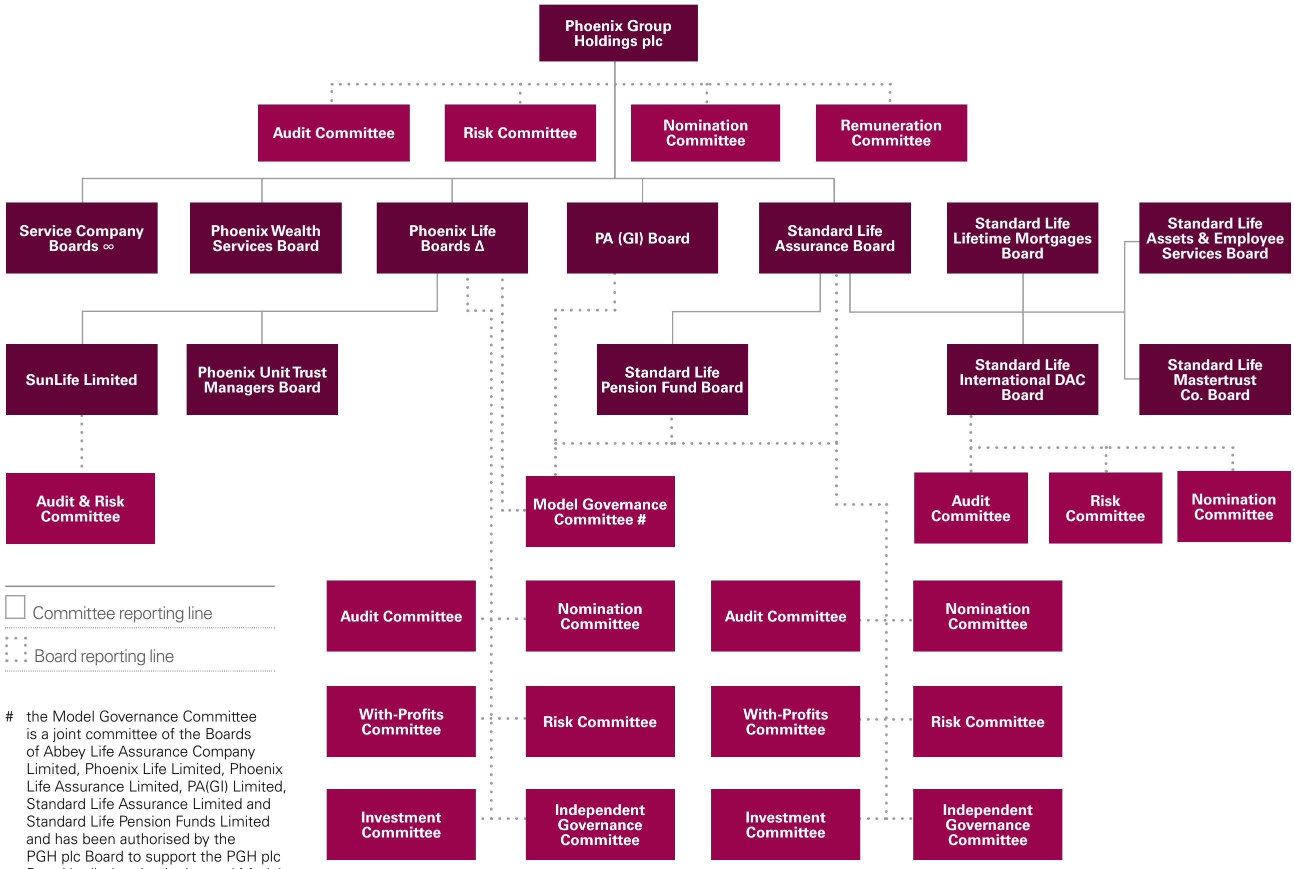
A system of Solvency II key functions (Actuarial, Internal Audit, Risk and Compliance) operates within the Group, reporting to both management oversight committees and Board committees accordingly. Representatives from Actuarial and Risk and Compliance functions are members of the ExCo (further information can be found in section B.1.4). In addition, the Internal Audit function reports directly to the Board Audit Committees. There are also a number of other key functions in the Group including Group Finance, Treasury, Tax, Legal Services, Human Resources ('HR'), Corporate Communications, Strategy and Corporate Development, Investor Relations and Company Secretariat.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Board and Committee Structure

The chart below shows the operating Boards and Board Committee structure within the Group as at 31 December 2018. The second chart shows their high level responsibilities.



\# the Model Governance Committee is a joint committee of the Boards of Abbey Life Assurance Company Limited, Phoenix Life Limited, Phoenix Life Assurance Limited, PA(GI) Limited, Standard Life Assurance Limited and Standard Life Pension Funds Limited and has been authorised by the PGH plc Board to support the PGH plc Board in discharging its Internal Model responsibilities.

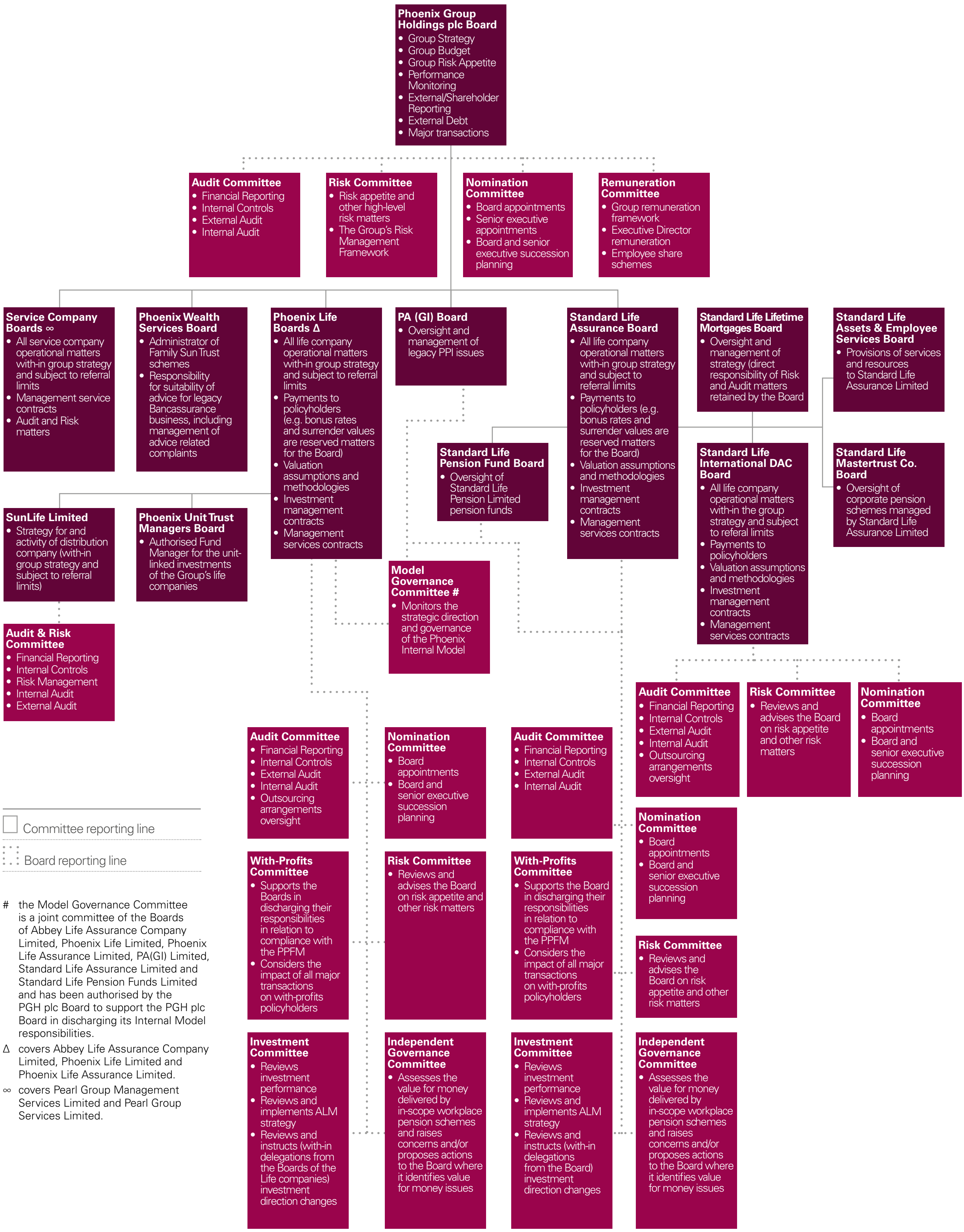
Δ covers Abbey Life Assurance Company Limited, Phoenix Life Limited and Phoenix Life Assurance Limited.

∞ covers Pearl Group Management Services Limited and Pearl Group Services Limited.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Board and Committee Structure continued



the Model Governance Committee is a joint committee of the Boards of Abbey Life Assurance Company Limited, Phoenix Life Limited, Phoenix Life Assurance Limited, PA(GI) Limited, Standard Life Assurance Limited and Standard Life Pension Funds Limited and has been authorised by the PGH plc Board to support the PGH plc Board in discharging its Internal Model responsibilities.

Δ covers Abbey Life Assurance Company Limited, Phoenix Life Limited and Phoenix Life Assurance Limited.

∞ covers Pearl Group Management Services Limited and Pearl Group Services Limited.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Board and Committee Structure continued

As part of the Group's activities to re-domicile its headquarters to the UK, on 12 December 2018, by way of a scheme of arrangement, a new holding company for the Group was put in place (Phoenix Group Holdings plc ('PGH plc')) to replace the old holding company Phoenix Group Holdings ('Old PGH').

PGH plc has the same Board that Old PGH had at the scheme of arrangement date. In addition, PGH plc has the same management, business and operations as Old PGH and there is no change to day to day operations of the business of the Group or its strategy.

B.1.3 PGH system of governance

B.1.3.1 Board responsibilities

Old PGH was and PGH plc is listed on the London Stock Exchange. The Board is committed to high standards of corporate governance and complies with the UK Corporate Governance Code which sets standards in good practice for UK listed companies. The PGH plc Board sets the strategy and risk appetite for the Group and is responsible for elements of external and shareholder reporting.

B.1.3.2 Composition and running of the PGH plc Board

The PGH plc Board comprises 12 Directors including a Non-Executive Chairman, two Executive Directors and seven independent Non-Executive Directors ('NEDs'). Additionally, following the strategic partnership entered into with Standard Life Aberdeen plc ('SLA plc') two senior SLA plc employees were appointed to the PGH plc Board. These NED positions are in addition to their current roles within SLA plc. Those performing roles which require approval pursuant to the Senior Managers and Certification Regime ('SMCR') have been duly approved.

The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and additional Board meetings and to devote appropriate preparation time ahead of each meeting. The Old PGH Board met twelve times during 2018. The PGH plc Board is scheduled to meet seven times in 2019 including for a two day strategy setting meeting. Additional meetings will be held as required and the NEDs will hold meetings with the Chairman, without the Executive Directors being present, as they did on several occasions in 2018.

B.1.3.3 PGH plc Board Committee Framework

The PGH plc Board has delegated specific responsibilities to four standing committees of the Board. The terms of reference of the committees can be found on the Group's website (http://www.thephoenixgroup.com/about-us/corporate-governance/board-committees/terms-of-reference.aspx) and also further details are available in the PGH plc Annual Report and Accounts for the year ended 31 December 2018. The four committees which support the PGH plc Board are:

- Audit Committee;
- Risk Committee;
- Nomination Committee; and
- Remuneration Committee.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.4 Role of executive management team

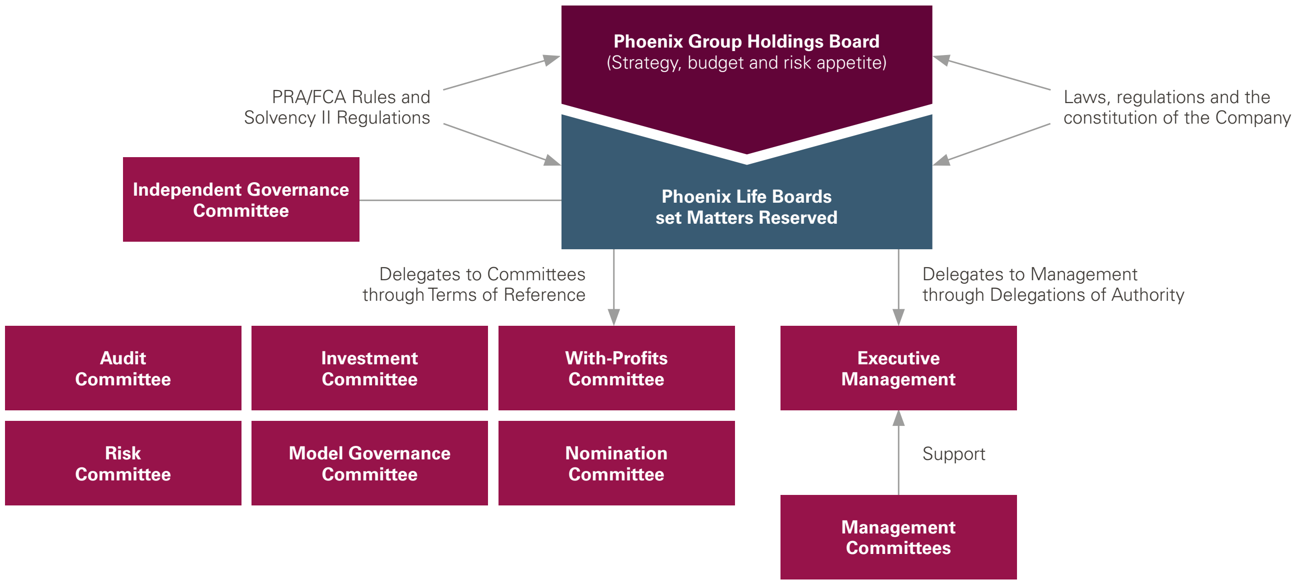
The Executive Management team is led by the Group CEO, who is supported by the ExCo. Their roles at 31 December 2018 are summarised in the table below.

Name	Position	Roles and responsibilities
Clive Bannister	Group Chief Executive Officer	• Leads the development of the Group's strategy for agreement by the Board. • Leads and directs the Group's businesses in delivery of the Group strategy and business plan. • Leads the Group to safeguard returns for policyholders and grow shareholder value. • Embeds a risk-conscious Group culture which recognises policyholder obligations in terms of service and security. • Manages the Group's key external stakeholders.
James McConville	Group Finance Director and Group Director, Scotland	• Develops and delivers the Group's financial business plan in line with strategy. • Ensures the Group's finances and capital are managed and controlled. • Develops and delivers the Group's debt capital strategy and other treasury matters. • Ensures the Group has effective processes in place to enable all reporting obligations to be met. • Supports the Group Chief Executive Officer in managing the Group's key external stakeholders. • Enhances shareholder value through clear, rigorous assessment of business opportunities.
Andy Moss	Chief Executive, Phoenix Life and Group Director, Heritage Business	• Leads development and delivery of the Phoenix Life business strategy, including the continued integration of life businesses. • Leads the Phoenix Life business to optimise outcomes for customers in terms of both value and security. • Ensures that Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.
Susan McInnes	Chief Executive, Standard Life and Group Director, Open Business	• Leads development and delivery of the Standard Life business strategy including ensuring the customer proposition is evolved to ensure it continues to meet the market need. • Focuses on a business model which ensures good outcomes for customers, shareholders and all other stakeholders. • Ensures that Standard Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.
Stephen Jefford	Group Human Resources Director	• Leads the implementation of the Group's employee strategy in order to recruit, retain, motivate and develop high quality employees. • Provides guidance and support on all HR matters to the Group Chief Executive Officer, the Executive Committee, the Board and Remuneration Committee. • Delivers HR services to the Group.

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.4 Role of executive management team continued

Name	Position	Roles and responsibilities
Tony Kassimiotis	Group Chief Operating Officer	• Leads development and delivery of the Group's operating platforms in line with regulatory requirements, the risk universe and strategy. • Ensures the delivery of the Group's information technology strategy. • Leads the management of the Group's long-term outsourcing arrangements. • Ensures that the Group's procurement activities and shared services are efficient and effective.
John McGuigan	Group Head of Customer	• Leads the Group's Customer Function to drive operational and experience delivery for the Group's customer base. • Sets standards and policies for customer management and interaction. • Provides customer oversight, complaint handling and remediation activity.
Jonathan Pears	Chief Risk Officer	• Leads the Group's risk management function, embracing changes in best practice and regulation including Solvency II. • Oversees and manages the Group's relationship with the FCA and PRA. • Supports the Board Risk Committee in the oversight of the Group's risk framework, in line with risk strategy and appetite.
Rakesh Thakrar	Deputy Group Finance Director	• Leads on the Group's Annual Report and Accounts, ORSA and Pillar 3 reporting. • Manages the Group's financial plans and management information in line with strategy. • Contributes to the effective management of the Group's balance sheet and financial plan (including Mergers and Acquisitions ('M&A')). • Leads on all financial aspects of any M&A.
Simon True	Group Corporate Development Director and Group Chief Actuary	• Supports the Group Chief Executive Officer in the formulation of the strategy for the Group. • Leads implementation of the Group's strategy as regards any potential acquisition or disposal. • Ensures that capital is managed efficiently across the Group. • Manages the Group's solvency position. • Leads the development of the Group's investment strategy. • Identifies and delivers opportunities to enhance shareholder value across the Group.
Quentin Zentner	General Counsel	• Leads provision of legal advice to the Board, other Group company boards, the Executive Committee and senior management. • Oversees and coordinates maintenance of, and adherence to, appropriate corporate governance procedures across the Group. • Designs and implements a framework to manage legal risk within the Group, including compliance by Group companies and staff with relevant legal obligations. • Designs and implements a whistleblowing framework within the Group.

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.5 Board and Committee Structure – PLL, PLAL and ALAC
The chart below summarises the governance and delegation structure of PLL, PLAL and ALAC as at 31 December 2018.



There were no significant changes to the system of governance for PLL, PLAL and ALAC during the year.

B.1.5.1 Roles and responsibilities of the PLL, PLAL and ALAC Boards
The role of the PLL, PLAL and ALAC Boards are to:

- provide entrepreneurial leadership of PLL, PLAL and ALAC within a framework of prudent and effective controls which enable risks to be assessed and managed;
- set PLL, PLAL and ALAC's strategic aims, ensure that the necessary financial and human resources are in place for the Companies to meet their objectives, and review management performance; and
- uphold PLL, PLAL and ALAC's values and standards and ensure that obligations to its shareholders, policyholders and other stakeholders are understood and met.

The PLL, PLAL and ALAC Boards are responsible and accountable for strategic matters (within the strategy set by the PGH plc Board), oversight of management and the performance of the PLL, PLAL and ALAC business.

B.1.5.2 Composition of the PLL, PLAL and ALAC Boards
The PLL, PLAL and ALAC Boards comprise of eleven Board members, four of whom are Executive Directors and seven of whom are independent NEDs.

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.5 Board and Committee Structure – PLL, PLAL and ALAC continued
B.1.5.3 PLL, PLAL and ALAC Committee Framework

The PLL, PLAL and ALAC Boards have established and delegated specific responsibilities to the following standing committees of the Boards:

- Audit Committee;
- Investment Committee;
- Independent Governance Committee;
- Model Governance Committee ('MGC');
- Nomination Committee;
- Risk Committee; and
- With-Profits Committee.

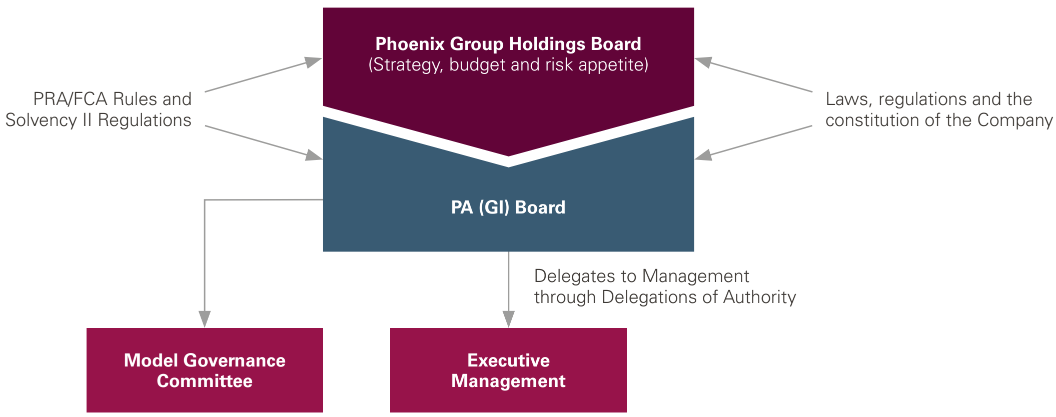
The Independent Governance Committee and With-Profits Committee are each chaired by an independent member of the committee who is not a Director. Both of these committees have a number of independent members who are not Directors.

The other standing committees of the PLL, PLAL and ALAC Boards are chaired by NEDs.

Further details regarding each of these committees are set out in section B.1.7.

B.1.6 Board structure - PA(GI)

The chart below shows the PA(GI) Board structure as at 31 December 2018.



The PA(GI) Board comprises of four Executive Directors. The PA(GI) Board has one formal committee, the MGC, which is also a committee of the Boards of the Groups's Life Companies. Further details are included in section B.1.7.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.7 Committees of the Boards

Details of the composition and role/duties of each standing committee of the Boards are outlined below:

Committee	Role, duties and responsibilities
Audit Committee	• Monitor the overall integrity of financial reporting. • Review the overall effectiveness of the relevant Company's internal control and risk management system and the Internal Audit function. • Agree the nature and scope of external audits and to oversee the relationship with the external auditors. • Monitor and review the effectiveness of the Finance function and the integrity of financial reporting. • Approve the remit of the Group Internal Audit ('GIA') function.
Investment Committee	• Establish and implement investment strategy and to regularly review investment and Asset Liability Management ('ALM') strategy whilst ensuring customers are treated fairly. • Initiate or review proposals for material changes in investment direction, and to approve such changes. • Review relative investment performance and oversee the governance of the relationships between the relevant Company and all investment managers, including oversight and review of fees, fee structures and Service Level Agreements. • Oversight and review the appropriateness of investment mandates. • Liaise with management committees which have responsibility for the shareholder impact of investment matters and also with the With-Profit Committee which has responsibility for the policyholder impact of investment matters.
Independent Governance Committee	• Act in the interest of members of the contract-based workplace pension schemes operated by the relevant Company and assess the ongoing value for money delivered by them.
Model Governance Committee	• Monitor the strategic direction and overall governance of the Internal Model used by the relevant Company. • Provide assurance to the relevant Board on the ongoing appropriateness, performance and effectiveness of the Internal Model.
Nomination Committee	• Lead the process for appointments and ensure that the Board retains an appropriate balance of skills, knowledge, experience and diversity to support the strategic objectives of the relevant Company. • Ensure there is a formal, rigorous and transparent approach to the appointment of Directors including maintaining an effective framework for succession planning. • Approve proposals for the appointment or removal of Directors to/from the Board. • Regularly review the structure, size and composition of the Board and make recommendations with regard to any changes that are deemed necessary. • Identify and nominate candidates to fill Board vacancies as and when they arise, and give consideration to succession planning. • Review annually the time required from NEDs and recommend the re-appointment to the Board of any NED at the end of their specified term of office.
Risk Committee	• Advise the relevant Board on all risk matters including risk appetite and tolerance in setting the future strategy. • Maintain the RMF, reviewing the risk appetite framework and limits. • Approve the overall risk management strategy and principal risk policies including monitoring compliance. • Oversight of the design and execution of the stress and scenario testing framework, and also ensuring that risks to the business plan are adequately identified and assessed through stress testing and scenario analysis.
With-Profits Committee	• Support the relevant Board in discharging its governance responsibilities in relation to compliance with the Principles and Practices of Financial Management ('PPFM'). • Assess, report on, and provide clear advice and, where appropriate, recommendations to the Board on the way in which each with-profits fund is managed and whether this is properly reflected in the PPFM and on any other issue which the Board or Committee considers that with-profits policyholders might reasonably expect the Committee to be involved. • Provide independent judgement in the assessment of PPFM compliance and how any competing or conflicting rights and interests of policyholders and, if applicable, shareholders have been addressed. • Consider all major transactions involving the Company (for example Part VII transfers, reinsurances, outsourcing) to the extent to which they impact upon with-profit policyholders. • Consider at the request of the Board all proposals for the exercise of discretion in respect of non-profit policies and the conduct and overall approach to treating customers fairly.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.8 Model Governance Committee

B.1.8.1 Roles and responsibilities of the MGC

The role of MGC is to monitor the strategic direction and overall governance of the Group's Internal Models. The Committee provides assurance to the relevant Boards on the ongoing appropriateness, performance and effectiveness of the Internal Models.

B.1.8.2 Composition and running of the MGC

The MGC is a committee of the Life Company and PA(GI) Boards and also supports the PGH plc Board in discharging its Internal Model related responsibilities. MGC membership comprises a Non-Executive Chairman and thirteen other members of whom five are independent NEDs. The MGC meets at least four times a year at appropriate times in the reporting cycle or more frequently as circumstances require.

The Committee Chairman reports in writing to the respective Boards on proceedings after each meeting, on all matters within its duties and responsibilities. This ensures the Boards receive appropriate information to ensure the Internal Model is operating properly on a continuous basis. The Committee makes whatever recommendations to the Boards it deems appropriate on any area within its remit where action or improvement is needed.

B.1.8.3 Assignment of responsibilities

The MGC has delegated the tasks required under the regulations to the Actuarial, Finance and Risk departments in accordance with their current responsibilities under a 'Three Lines of Defence' model (further details are included in the governance section of section B.3.2). The RMF is underpinned by the operation of the Governance model with clearly defined roles and responsibilities of Boards and their committees, management oversight committees, Group Risk and Group Internal Audit.

In their role as first line of defence (where risk is delegated from the Board to the Group CEO, ExCo members and through to business managers), the Finance and Actuarial departments have delegated responsibility for:

- design, implementation, operation and use of the Internal Model set by the Group Risk function;
- operation of the validation framework in line with the requirements set by the Risk Management function;
- documenting the Internal Model process and any subsequent changes; and
- informing the Board about the performance of the Internal Model, its limitations, areas needing improvement, and the status of activity to address previously identified weaknesses.

In its role as second line of defence (where risk oversight is provided by the Group Risk function, the PGH plc Board Risk Committee and the relevant Life Company Risk committees), the Risk function has delegated responsibility for governance and oversight of the Internal Model, including but not limited to:

- sponsorship of the model governance policy;
- ownership of the Internal Model validation framework;
- independent validation of the design, implementation and operation of the Internal Model, including compliance with the model governance policy; and
- in relation to independent validation activity performed and summary reports produced, informing the administrative or management body about the performance of the Internal Model, suggesting areas needing improvement, and providing a review of the Finance and Actuarial departments' reporting in relation to weaknesses and limitations of the Internal Model, and the activity to improve previously identified weaknesses.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.9 Key functions

Solvency II defines 'function' within a system of governance as an internal capacity to undertake practical tasks and to operate a system of governance which includes the Risk Management function, the Compliance function, the Internal Audit function and the Actuarial function.

The functions which operate within the Group are as follows:

- Risk Management function (see section B.3 for further details);
- Compliance function (see section B.4 for further details);
- Internal Audit function (see section B.5 for further details); and
- Actuarial function (see section B.6 for further details).

Their duties and responsibilities are allocated, segregated and coordinated in line with Phoenix Group policies. This ensures that all the important duties are covered and that unnecessary overlaps are avoided.

Further details on how the key functions have the necessary authority, resources and operational independence to carry out their tasks together with how those functions report to and advise the Boards of the Group are provided in the sections which cover each function (see sections B.3. B.4, B.5 and B.6).

B.1.10 Remuneration policy

This section details the remuneration policy in place for the Group excluding the acquired Standard Life Assurance businesses. Further details regarding the remuneration policy (including Annual Incentive Plans) in place for the Standard Life insurance subsidiaries can be found in Section B of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

The Group has one consistent remuneration policy for all levels of employees which is made available to all staff. Therefore, the same remuneration policy principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors for different areas of the business.

The Group-wide remuneration policy is overseen by the Remuneration Committee of PGH plc ('RemCo'). Further details on this Committee can be found in the PGH plc Annual Report and Accounts for the year ended 31 December 2018 and on the governance pages of the PGH plc website (http://www.thephoenixgroup.com/about-us/corporate-governance.aspx).

The policy focuses on ensuring sound and effective risk management and supports management in the operation of their business through the identification of minimum standards and key controls.

The key principles of the remuneration policy which applies across the Group are set out below.

a) Attract, retain and motivate quality staff – management keep remuneration practices under review to ensure that these support promotion of the long-term interests of the Group and its stakeholders and adequately and fairly reward staff.

b) Remuneration is positioned appropriately against external benchmarks – remuneration is benchmarked against independent third party data at appropriate intervals.

c) Remuneration is aligned to the long-term success of the Company – performance related components of remuneration are aligned to measures which reflect achievement of the Group's long-term success and strategy.

d) Proportion of variable pay is appropriate and balanced and has due regard to any impact of risk - the ratio of fixed to variable remuneration will differ depending on the specific incentive schemes in operation across the business. However, the Group seeks to ensure that an appropriate balance between fixed and variable remuneration is maintained for all employees, with the fixed proportion being sufficient to allow variable pay to operate on a fully-flexible basis, including the possibility of no payments of variable remuneration in a year. For Approved Persons (further details are included in section B.2) there is also an appropriate balance between annual and long-term incentives, with the deferral of annual incentives into shares and all incentives including provision for the application of malus and clawback where appropriate.

e) Independence and strong governance in decision-making processes – as the policy is overseen by RemCo this ensures an appropriate level of independent challenge given RemCo exclusively comprises independent NEDs. Certain roles within control functions (Risk, Compliance, Internal Audit and Actuarial) are also subject to different variable pay arrangements which exclude any linkage to financial performance for annual incentives.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.10 Remuneration policy continued

B.1.10.1 Variable remuneration plans

Annual Incentive Plan

All permanent members of staff participate in an Annual Incentive Plan ('AIP').

For Group staff (with the exception of SunLife staff) this is subject to a mixture of Corporate (financial and strategic) and Personal (individual objectives) performance measures for all staff. This represents a balanced scorecard which includes customer metrics in addition to financial and personal measures.

The quantum of and the balance between Corporate and Personal performance measures varies between different levels of staff. The Corporate performance measures apply on a Group-wide basis to produce a 'corporate factor' in calculating AIP outcomes.

For 2018, the selected performance measures for the corporate element of the AIP were as follows:

Performance Metric	Weighting of Corporate measure
Corporate measures for AIP in 2018	
Operating companies' cash generation	30%
Solvency II management actions	15%
Solvency II Own Funds	30%
Customer experience	25%

One-third of AIP outcomes for all senior management subject to the regulatory requirements were deferred for a period of three years under the Deferred Bonus Share Scheme; for ExCo this was 40%.

Additionally, all permanent members of SunLife participated in an AIP similar in structure to the Group one described above with a mixture of Corporate (financial and strategic) and Personal (individual objectives) performance measures for all staff. The corporate element is however based on SunLife operating business.

AIP for material risk takers in Control functions (Audit, Risk, Compliance and Actuarial) is based on personal performance only so that their remuneration is not subject to the performance of any part of the business of which they have oversight.

Long-term Incentive Plan

The Group operates a Long-term Incentive Plan ('LTIP') for selected senior members of staff.

RemCo sets performance measures for each LTIP grant. Performance measures include an appropriate mix of measures based on growth in suitable performance conditions set at the time of grant. Performance measures are subject to additional 'underpin' requirements which permit RemCo to reduce or prevent vesting in appropriate circumstances.

The weightings of the LTIP performance measures for 2018 are summarised below. Each performance measure is assessed over the period of three financial years from 2018 to 2020.

Performance Metric	Weighting of Corporate measure
Cumulative cash generation	40%
Return on Solvency II Shareholder Own Funds	35%
Total Shareholder Return ('TSR')	25%
Total	100%

All 2018 LTIP awards are subject to a further underpin measure relating to debt and risk management within the Group. This 'underpin' also includes consideration of customer satisfaction and, in exceptional cases, personal performance.

The relative Total Shareholder Return ('TSR') measure is calculated against the constituents of the FTSE 250 (excluding Investment Trusts) with vesting commencing at median (25% of this part of the award) and full vesting at upper quartile levels, subject to an underpin regarding underlying financial performance.

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.10 Remuneration policy continued
B.1.10.2 Description of pension arrangements

All members of staff are invited to participate in the Group Personal Pension plan or other defined contribution pension arrangement that are open at that time. A legacy Abbey Life defined benefit pension scheme also remained open to a closed population of former ALAC employees until the employees left the business during 2018 . Where an individual is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance could be taken as a cash supplement (reduced for the impact of employers' National Insurance Contributions).

The Group does not operate any discretionary pension benefits. Death in Service benefits are provided to all staff.

B.1.10.3 Material transactions with shareholders and members of the Boards

There were no transactions with members of the PGH plc Board and insurance subsidiary Boards other than remuneration provided under the principles set out above.

Details of the actual remuneration of the members of the PGH plc Board are set out in the Directors' remuneration report of PGH plc in the PGH plc Annual Report and Accounts for the year ended 31 December 2018 (see pages 76 to 105).

Material transactions with shareholders reflect the payment of dividends, of which further details can be found in the Directors' Report included in the PGH plc Annual Report and Accounts for the year ended 31 December 2018 (see page 106).

SYSTEM OF GOVERNANCE CONTINUED

B.2 FIT AND PROPER REQUIREMENTS

This section provides information on the specific requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the undertaking or hold other key functions; and how they are assessed to be 'fit and proper'.

B.2.1 Senior Insurance Managers Regime

The regulatory requirements of the Senior Insurance Managers Regime ('SIMR') apply to all staff within the Group who are employed within a Key Function, defined as one which is essential for the successful operation of the business. Whilst all employees (with the exception of those engaged in facilities and catering activity) are subject to elements of the regime, the most significant impact is upon Senior Management (in particular ExCo and the Phoenix Management Board ('PMB')), Approved Persons and the NEDs. In total, this equates to 41 roles across the Group.

The Service Companies and Phoenix Unit Trust Managers ('PUTM') are not included within this regime. However, there are broadly similar requirements resulting from the FCA SIMR (previously the Approved Person regime).

The Group and its insurance subsidiaries ensure the associated requirements are met through the effective implementation of the Phoenix Approved Person Framework, and associated documentation, policies and processes. This framework covers the following:

- alignment of Controlled function (i.e. the activities performed by the Approved Persons) roles to the SIMR;
- authorisation process for pre-approved Controlled function, notified functions (for example, a NED in a role not requiring pre-approval) and key function holders;
- demonstration and maintenance of fitness and propriety;
- application and demonstration of the applicable conduct standards across the business; and
- evidence and maintenance of competence via the Phoenix performance management process.

With regards to the specific requirements concerning skills, knowledge and expertise to the initial and ongoing skills analysis, all individuals complete a relevant induction programme at appointment. As part of the recruitment process, they also have a competency assessment and agree an appropriate development plan. Once in role, senior managers with accountability are subject to the Group's annual performance management process in addition to the annual fit and proper process, implemented for all Approved Persons, SIMR functions and key function holders.

Consistent with regulatory changes appropriate action was delivered in 2018 to transition all Solvency II firms, including those recently acquired, to the PRA & FCA Senior Manager and Certification Regimes. All individuals previously holding pre-approved Senior Insurance Manager functions were successfully converted to the appropriate Senior Manager function within the required regulatory timescales. Appropriate processes and procedures to evidence required fitness and propriety requirements remain in place across all firms with new processes being implemented in respect of certification requirements to support the end 2019 requirements.

B.2.2 Process for assessing fitness and propriety

The Group has a number of policies and processes established which apply to all regulated entities and provide appropriate guidance and governance to ensure that those effectively running the Group have and maintain appropriate fit and proper status during their appointment. These policies and processes include the requirements to:

- identify and maintain accurate records of all Approved Persons, sufficient to meet the requirements of the FCA and PRA;
- ensure new appointments are appropriately authorised, including skills analysis, competence assessment and relevant development plan documentation and monitoring;
- maintain a Group Approved Persons Framework to provide direction and guidance to the Group's Approved Persons ensuring they understand and can evidence how they meet their regulatory requirements;
- complete periodic assessments of Approved Persons to determine their ongoing competence, including consideration of performance development rating, Disclosure and Barring Service ('DBS') check, periodic financial check and interim self-certification;
- maintain an effective performance management framework, ensuring that the performance of employees is effectively managed;
- motivate and retain the right employees through appropriate reward structures;
- deliver an appropriate organisational culture through embedding appropriate values and behaviours;
- identify, plan and implement effective learning and development activities; and
- provide guidance, information and advice regarding the requirements, expectations and obligations of an Approved Person role.

Evidence of adherence to these standards is monitored on a quarterly basis and recorded within the Group centralised risk management system.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

This section provides a description of the Group's risk management system including information on how the risk management functions are implemented and integrated into the organisational structure and decision-making processes of the Group.

The PGH Group Board is accountable for the Group's Risk Management Framework ('RMF') which it seeks to ensure is implemented consistently across all Group subsidiaries. Ultimate accountability for compliance with the regulations rests with the PGH Board; however each insurance subsidiary Board has responsibility for its own entity complying with the regulations.

B.3.1 Risk Management Function

The Group Risk function is headed by the Group Chief Risk Officer ('CRO'), who reports directly to the Group CEO. Following the acquisition of the Standard Life businesses, CROs have been appointed for each of the Phoenix Life and Standard Life businesses who report directly to the Group CRO.

The Group Risk function has the primary responsibility for supporting the PGH and insurance subsidiaries Boards and the various committees (as detailed in section B.1) in meeting their risk management responsibilities.

The Group Risk function is split into four teams, covering the following areas:

Regulatory risk: This team is responsible for oversight of regulatory risk (including data protection and financial crime) within the Group. This includes responsibility for all the Group's authorised undertakings and accountability for the successful implementation of all compliance activities. This responsibility extends across the business, including to all Outsourced Service Providers ('OSPs').

Operational risk: This team is responsible for oversight of operational risk within the Group. This includes ensuring that the RMF is used by the Group to identify, assess, manage, monitor and report the operational risks it faces in achieving its strategic objectives. This responsibility extends across the business, including to all OSPs.

Financial risk: This team is responsible for oversight of all financial risks within the Group. This includes ensuring that the RMF is used by the Group to identify, assess, manage, monitor and report the financial risks it faces in achieving its strategic objectives. This team also has responsibility for independently validating that the Group's Internal Model continues to meet the regulatory requirements under Solvency II, including documentation requirements.

Regulatory relationship: This team is responsible for managing the relationship with the regulators, including the co-ordination and tracking of the interactions with the PRA and FCA and arranging preparation for Supervisory Risk Assessment visits.

B.3.2 Risk Management Framework

The Group's RMF embeds proactive and effective risk management across the Group. It seeks to ensure that all risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes. The RMF is implemented consistently and is in operation throughout the Group.

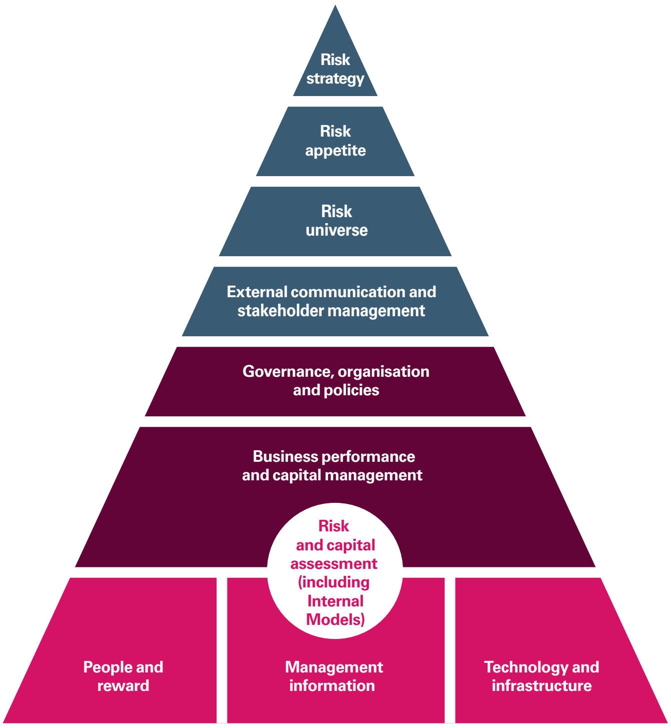
Within SLAL, the Enterprise Risk Management ('ERM') Framework has been in place throughout the year. More details of this can be found in the SLAL SFCR for the year ended 31 December 2018. Work is well advanced to deliver a harmonised RMF for the Enlarged Group which combines the 'best of both' from the respective frameworks.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

The RMF comprises ten components as illustrated below.



The outputs of the RMF provide assurance that all risks are being appropriately identified and managed effectively and that an independent assessment of management's approach to risk management is being performed.

Group Risk conducts an annual assessment of the Group's adherence to the RMF that provides assurance to management and the Boards that the RMF has been implemented consistently and is operating effectively across the Group.

Further details of the ten components of the RMF are below.

Risk strategy

The Group's risk strategy provides an overarching view of how risk management is incorporated consistently across all levels of the business, from decision-making to strategy implementation.

It assists the business in achieving its strategic objectives by supporting a more stable, well managed business with improved customer and shareholder outcomes.

This is achieved not by risk avoidance, but through the identification and management of an acceptable level of risk (its 'risk appetite') and by ensuring that the Group is appropriately rewarded for the risks it takes.

To ensure that all risks are managed effectively, the Group is committed to:

- embedding a risk aware culture;
- maintaining a strong system of internal controls;
- enhancing and protecting customer and shareholder value by continuous and proactive risk management;
- maintaining an efficient capital structure; and
- ensuring that risk management is embedded into day-to-day management and decision-making processes.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Risk appetite

The Group's risk appetite is the level of risk the Group is willing to accept in pursuit of its strategic objectives. The statements below encapsulate the Group's risk appetite for policyholder security and conduct, earnings volatility, liquidity and the Group's control environment:

- **Capital** – the Group and each Life Company will hold sufficient capital to meet regulatory requirements in a number of asset and liability stress scenarios.
- **Cash flow** – the Group will seek to ensure that it has sufficient cash flow to meet its financial obligations and will continue to do this in a volatile business environment.
- **Shareholder value** – the Group will take action to protect its shareholder value.
- **Regulation** – the Group and each Life Company will, at all times, operate a strong control environment to ensure compliance with all internal policies applicable laws and regulations, in a commercially effective manner.
- **Conduct** – the Group has no appetite for deliberate acts of misconduct or omissions that result in poor customer outcomes, reputational damage and/or pose a risk to the FCA's statutory objectives.

The risk appetite and control framework supports the Group in operating within the boundaries of these statements by limiting the volatility of key parameters under a range of adverse scenarios agreed with the Board. Risk appetite limits are chosen which specify the maximum acceptable likelihood for breaching the agreed limits. Assessment against these limits is undertaken through extensive scenario and reverse stress testing ('RST').

Risk universe

A key element of effective risk management is ensuring that the business has a complete understanding of the risks it faces. These risks are defined in the Group's risk universe.

The risk universe allows the Group to deploy a common risk language, allowing for meaningful comparisons to be made across the business.

There are three levels of risk universe categories. The highest risk universe category is Level 1 and includes:

- Strategic risk;
- Customer risk;
- Financial soundness risk;
- Market risk;
- Credit risk;
- Insurance risk; and
- Operational risk.

Embedded within these categories, and customer risk in particular, are the conduct risks faced by the Group and its customers. These risks are separately monitored and reported on across the organisation to ensure that conduct risk receives appropriate emphasis and oversight.

The Group has developed a PGH plc Board approved risk appetite statement to manage conduct risk. The appetite statement is supported by the assessment of all conduct-related risks faced by the Group on a quarterly basis. This regular assessment and reporting enables the Group to be forward-looking and proactive in the management of conduct risk.

SYSTEM OF GOVERNANCE CONTINUED
B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED
B.3.2 Risk Management Framework continued

Risk universe continued

Section C of this SFCR contains a summary of the risk profile of the Group and its insurance subsidiaries. The summary in Section C is structured in accordance with the risk categories of the Solvency II Directive, which is different from the risk categories set out above. The following table provides a mapping between the different sets of risk categories in section B.3 and section C:

Section B – Phoenix Group risk universe	Section C – Risk Profile	Comment
Strategic risk	Other material risks	Exposure to strategic risk is considered in section C 'other material risks'
Customer risk	Other material risks	Exposure to customer risk is considered in section C 'other material risks'
Financial soundness risk	Liquidity risk	Liquidity risk is a sub-category of financial soundness risk. The other material components of financial soundness risk (capital management risk and tax risk) are considered in section C 'other material risks'
Market risk	Market risk	No difference
Credit risk	Credit risk	No difference
Insurance risk	Underwriting risk	Section C 'underwriting risk' includes all components of insurance risk (mortality risk, longevity risk, morbidity risk, expense risk, lapse risk and policyholder behaviour risk)
Operational risk	Operational risk	No difference
Not applicable	Other material risks	Section C 'other material risks' considers exposure to risk universe categories not already covered in parts of section C.

External communication and stakeholder management

The Group has a number of internal and external stakeholders, each of whom has an active interest in the Group's performance, including how risks are managed. Significant effort is made to ensure that the Group's stakeholders have appropriate, timely and accurate information to support them in forming the views of the Group.

The insurance subsidiaries and the Group are subject to the requirements of regulators and have obligations to customers in terms of their reasonable benefit expectations and maintaining the security of the assets backing those obligations.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

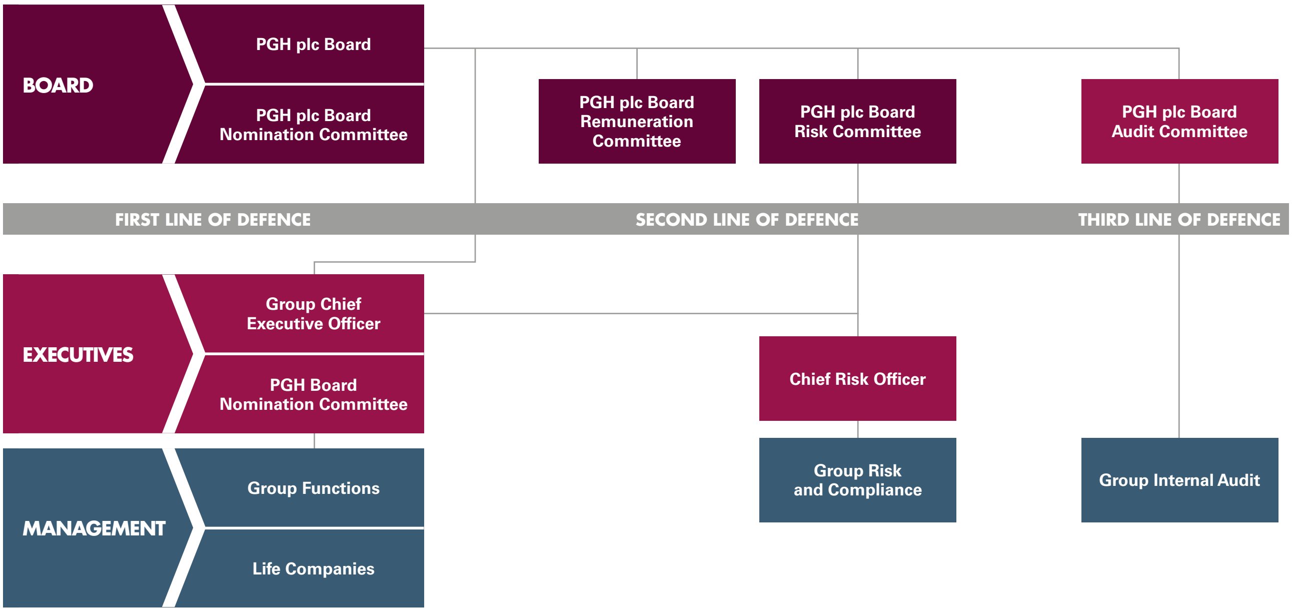
B.3.2 Risk Management Framework continued

Governance, organisation and policies

Governance

Overall responsibility for approving, establishing and embedding the RMF rests with the PGH plc Board. The PGH plc Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated authorities and responsibilities, from the PGH plc Board to the insurance subsidiary Boards and the ExCo. Further details are included in section B.1.

The RMF is underpinned by the operation of a 'Three Lines of Defence' model with clearly defined roles and responsibilities for statutory Boards and their committees, management oversight committees, Group Risk and Group Internal Audit. This is illustrated by the diagram below:



First line: Management – Management of risk is delegated from the Board to the Group CEO, Executive Committee members and through to business managers. A series of business unit management oversight committees operate within the Group. They are responsible for implementation of the RMF and ensuring the risks associated with the business activities are identified, assessed, controlled, monitored and reported.

Second line: Risk oversight – Risk oversight is provided by the Group Risk function, the Group Board Risk Committee and the Life Board Risk Committees.

Third line: Independent assurance – Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the Group Internal Audit function, which is supported by the Board Audit Committees.

Organisation

The Group CRO manages the Group Risk function and has responsibility for the implementation and oversight of the Group's RMF. The Group Risk function has responsibility for oversight over financial, operational and regulatory risk. The regulatory relationship team manages the relationship and interactions with the Group's primary regulators and reports to the Group CRO.

Details on the Internal Model governance and organisation are included in section B.3.4.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Policies

The Group policy framework comprises a set of policies that support the delivery of the Group's strategy by establishing operating principles and expectations for managing the key risks to the Group's business. The policy set is mapped to the Group risk universe and contains the Minimum Control Standards ('MCS') to which each business unit must adhere to and against which they report compliance.

The policies define:

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

Each policy is the responsibility of a member of the ExCo who is charged with overseeing compliance throughout the Group.

Business performance and capital management

The Annual Operating Plan ('AOP') is assessed to ensure that the Group operates within its stated risk appetite. Business performance is routinely monitored with consolidated reporting against performance targets.

The Group operates a capital management policy where capital is allocated across risks where capital is held as a mitigant and the amount of risk capital required is reviewed regularly.

Risk and capital assessment

The Group operates a standardised assessment framework for the identification and assessment of the risks to which it may be exposed and how much capital should be held in relation to those exposures. This framework is applicable across the Group and establishes a basis, not only for the approach to risk assessment, management and reporting but also for determining and embedding capital management at all levels of the Group in line with Solvency II requirements.

Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the Group's objectives.

Stress and scenario tests are used extensively to support the assessment of risks and provide analysis of their financial impact.

Independent reviews conducted by Group Risk provide further assurance to management and Board that individual risk exposures and changes to our risk profile are being effectively managed.

Qualitative information on material risks

The Group's top principal risks and uncertainties are detailed in the table below together with their potential impact and mitigating actions which are in place. As economic changes occur and the industry and regulatory environment evolves, the Group will continue to monitor their potential impact.

Risk	Impact	Mitigation
STRATEGIC RISK		
The Group fails to make further value adding acquisitions or effectively transition acquired businesses.	We are exposed to the risk of failing to deliver against our primary strategic focus of continuing to achieve inorganic growth through acquisitions. Transition of acquired businesses into the Group could introduce structural or operational challenges that result in Phoenix failing to deliver the expected outcomes for policyholders or value for shareholders.	The Group applies a clear set of assessment criteria to assess opportunities. Acquisition strategy supported by the Group's financial strength and flexibility, its strong regulatory relationships and its track record of managing conduct issues and generating value. The financial and operational risks of target businesses are assessed in the acquisition phase. Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Qualitative information on material risks continued

Risk	Impact	Mitigation
STRATEGIC RISK		
The Group's strategic partnership with Standard Life Aberdeen fails to deliver the expected benefits	The ongoing Strategic Partnership with Standard Life Assurance plc (SLA plc) will provide additional growth opportunities and is an enabler for delivery of the Group's strategy. There is a risk that the partnership does not deliver expected benefits. Key areas include implementation and oversight of the Client Service and Proposition Agreement and Transitional Service Agreements.	The Joint Operating Forum between SLA plc and Phoenix will develop the partnership in existing areas, and identify areas for future growth and partnership, for the benefit of customers and shareholders of each Group. Through the Client Service and Proposition Agreement Phoenix and SLA plc will actively collaborate across a number of areas, including proposition development and distribution.
The Group fails to ensure that its propositions continue to meet the evolving needs of customers and clients	If our propositions fail to meet the needs of customers and clients it could adversely impact the Group's ability to deliver growth assumed in our business plans. The risk could materialise through increased outflows or reduced new business levels.	Our propositions are designed with our customers and clients at the heart. We regularly seek customer feedback on our propositions, this helps prioritise future developments. We actively review and invest in our propositions to ensure they remain competitive and meet expectations.
CUSTOMER RISK		
The Group fails to deliver fair outcomes for its customers	Phoenix is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and/or potential detriment. This could also lead to reputational damage for the Group and/or financial losses.	Our customer policies help to ensure that the standards and outcomes we set are implemented consistently across the business. We maintain a strong and open relationship with the FCA and other regulators.
OPERATIONAL RISK		
The Group is impacted by significant changes in the regulatory, legislative or political environment.	The conduct-focused regulator has a greater focus on customer outcomes. This may continue to challenge existing approaches and/or may result in remediation exercises where the life companies cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the implications of Brexit can also impact the Group's operations or financial position. Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.	The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory and legislative change and the impact on our operations and lobbies where appropriate. The Group has contingency plans in place to ensure we can continue to service our non-UK policyholders after the UK leaves the EU.
The Group or its outsourcers are not sufficiently operationally resilient.	We are exposed to the risk of being unable to maintain provision of services in the event of major operational disruption, either within our own organisation or those of our outsourcers. Our Enlarged Group now relies on a wide range of IT systems and also greater use of online functionality to meet customer preferences. This exposes us to the risk of failure of key systems and cyber-attacks. The Group also now provides IT services to SLA plc through the terms of the sale of the Standard Life Assurance businesses. Regulators expectations of the speed and effectiveness of firms' responses to business resilience incidents are increasing.	The Group has a set of risk policies that map to its risk universe and set out an appetite level for each risk and minimum controls standards. We work with specialist external cyber risk experts to identify new risks and develop our responses. The Group has a business continuity management framework that is subject to annual refresh and regular testing. The Group operates an oversight framework to ensure that our outsource partners and critical suppliers adhere to the same business continuity principles.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Qualitative information on material risks continued

Risk	Impact	Mitigation
OPERATIONAL RISK		
The Group fails to retain or attract a diverse workforce with the skills needed to deliver its strategy	The Group places great reliance on its people to help deliver its strategy. Delivery of our strategy could be impacted by the uncertainty caused by the integration of Phoenix and Standard Life, which could result in loss of critical corporate knowledge or unplanned departures of key individuals.	Timely communications to our people aim to provide clarity around any uncertainty brought by the purchase of Standard Life, along with key milestones required to deliver the transition. We regularly benchmark terms and conditions against the market. We maintain and review succession plans for key individuals.
MARKET RISK		
In times of severe market volatility, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or may suffer a loss in value.	The emerging cash flows of the Group may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's capital position, on fees earned on assets held and on customers and client sentiment.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against unwanted customer and shareholder outcomes from certain market movements such as equities and interest rates. The Group also maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows. The Group's excess capital position continues to be closely monitored and managed, particularly in the low interest environment and any potential impact on financial markets as a result of Brexit.
INSURANCE RISK		
The Group may be exposed to adverse demographic experience which is out of line with expectations.	The Group has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if our annuity policyholders live for longer than expected, then their benefits will be paid for longer. The amount of additional capital required to meet those additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group continues to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite. The Group actively monitors persistency risk metrics and exposures across the open and heritage businesses.
CREDIT RISK		
The Group is exposed to the failure of a significant counterparty.	The life companies are exposed to deterioration in the actual or perceived creditworthiness or default of counterparties we hold money, bonds or commercial real estate loans with. This can cause immediate financial loss or a reduction in future profits. An increase in credit spreads (particularly if accompanied by a higher level of actual or expected issuer defaults) could adversely impact the value of the Group's assets. The Group is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations.	The Group regularly monitors its counterparty exposure and has specific limits relating to individual exposures, counterparty credit rating, sector and geography. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Qualitative information on material risks continued

The Group's senior management and Board also take emerging risks into account when considering potentially adverse outcomes and appropriate management actions prior to the risk crystallising. Some of the current emerging risks the Group considers are listed in the table below.

Risk title	Description	Risk universe category
Market Disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic
Solvency II Changes	Changes to the solvency regime as a result of government review and the UK's exit from the EU.	Financial Soundness
Climate Change Transition	Although the physical risks are not currently seen as a principal risk for the Group, there are a range of financial and operational risks associated with the transition to a low carbon economy, e.g. the impacts of climate risks on the prospects of current and future investment holdings.	All

People and reward

Effective risk management is central to the Group's culture and its values. Processes are operated that seek to measure both individual and collective performance and discourage incentive mechanisms which could lead to undue risk taking. Training and development programmes are in place to support employees in their understanding of the RMF. As the Enlarged Group defines its future culture, Group Risk are working closely with Group HR to understand how the outcome of this work can be used to assess the risk culture of the business on an ongoing basis.

Management information

Overall monitoring and reporting against the risk universe takes place in business unit management committees and Boards. This is then reported to the PMB, Life Companies Board, and the PGH plc Board via regular risk reporting.

The PGH plc Board Risk Committee and the Life Risk Committee receive a consolidated risk report on a quarterly basis, detailing the risks facing the Group and the overall position against risk appetite limits. Both committees are also provided with regular reports on the activities of the Group Risk function.

Technology and infrastructure

The Group employs market leading risk systems to support the assessment and reporting of the risks it faces. This enables management to document key risks and controls and evidence the assessment of them at a frequency appropriate to the operation of the control.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.3 Own Risk and Solvency Assessment process

The Group and its insurance subsidiaries have implemented an Own Risk and Solvency Assessment ('ORSA') process which assesses its risk profile on an ongoing basis. The ORSA process contains a number of components which operate at regular frequencies, either within the Life Companies, at PGH Group level or both.

The ORSA process is illustrated below:

The ORSA processes in Phoenix Group support the link between strategy, risk, risk appetite and capital. The key regular ORSA processes in operation across Phoenix Group are as follows:

- Strategy, capital, liquidity and business planning;
- Risk appetite assessment and reporting;
- Risk profile reporting;
- Reporting of emerging risks;
- Stress and scenario testing, including reverse stress testing and quantitative and qualitative scenario analysis;
- Contingent action analysis; and
- ORSA reporting.

There is an ongoing evaluation of the risk profile, capital and liquidity requirements and Own Funds which is delivered through the ORSA processes. The risk profile evaluation is a process that operates throughout the business to report on changes to key risks in the context of the Group's risk appetite. Transactions and material projects are evaluated using return on capital metrics to ensure an efficient allocation of capital.

The ORSA is a forward-looking tool for managing the business and supporting decision-making. Information provided on scenario testing results and their impact on risk appetite and capital and liquidity requirements is provided to assist the Board in evaluating new opportunities, management actions or strategic options.

The Group operates a series of management oversight committees which together provide governance over all steps in the ORSA process. The Boards are responsible for the ORSA reports, which document the outcome and results of the ORSA processes to support the Boards' decision-making.

The ORSA is reviewed and approved by the Board at least annually or in the event that there is a significant change in risk profile.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.4 Risk management system and Internal Model governance

The MGC is a Committee of the Life Companies' Boards and also supports the PGH plc Board in discharging its Internal Model responsibilities. The Committee supports the Boards in ensuring that they receive appropriate information and assurance to ensure that the Internal Models are operating properly on a continuous basis. The MGC reviews all material changes to the Internal Models prior to consideration by the relevant Boards.

More details of the governance process of the Internal Models are set out in section B.1.5.

The performance and ongoing appropriateness of the Internal Models is monitored by way of ongoing validation of Internal Model methodology, risk calibrations and operational processes, in line with the system of governance set out in the Model Governance Policy, Standards and associated Framework documents.

The Life Finance, and Life and Group Actuarial departments produce Internal Model risk calibration recommendations and Internal Model results. These departments operate internal review and validation processes. The validation outcomes are summarised as part of each Internal Model valuation cycle in a self-certification report which assess compliance with Solvency II requirements and Internal Model assurance principles.

Senior Management and the relevant management committees review the risk calibration recommendations and the Internal Model results.

Group Risk independently validates all aspects of the Internal Model over a two-year rolling period, with particular emphasis on risk calibration recommendations and the underlying methodologies and operation of the Internal Model.

Risk Calibration reports, Internal Model results and self-certification reports are reviewed by the MGC on behalf of the Life Companies and Group Boards. The MGC also receives a quarterly opinion from Group Risk on the continued appropriateness, performance and effectiveness of the Internal Model together with regular independent assurance from Group Internal Audit that the Internal Model processes are operating as intended.

A summary of the MGC reviews are provided to the Life Companies' and Group Boards who approve risk calibration recommendations and Internal Model results.

SYSTEM OF GOVERNANCE CONTINUED

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal Control Framework

The Group's internal control system is outlined in the Internal Control Framework and is implemented across Phoenix Life and the Group. The Standard Life insurance subsidiaries currently operate their own Internal Control Frameworks and further details are set out in section B.4 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018. Work is ongoing to harmonise the frameworks. The Internal Control Framework places reliance on the effective operation of the 'Three Lines of Defence' model described in section B.3.2 which is a recognised approach in supporting effective corporate governance and oversight.

There are five key elements to the effective operation of the Internal Control Framework to enable Lines 1, 2 and 3 to fully discharge their responsibilities:

- identification of the key controls within the business to effectively manage risks within risk appetite, which is undertaken as part of the annual Group Policy refresh process. This includes identification of the MCS required in order to manage risk within appetite;
- for each MCS defined, a clear articulation of the expected evidence to support the assertion that the MCS is operating effectively;
- self-assessment by designated control owners of the operating effectiveness of each MCS on a quarterly basis;
- implementation of a proportionate programme of controls assurance activity by Line 1 supported by further review and assurance activities by Lines 2 and 3; and
- reporting on MCS performance to provide assurance and management information to all stakeholders confirming that the controls are operating as expected or highlighting exceptions. This in turn enables the data to be incorporated and referenced within Line 1 and Line 2 risk reporting.

Each of these elements is an integral part of the RMF as outlined in section B.3, in particular risk appetite; governance, organisation and policies; management information; and technology and infrastructure.

B.4.2 The Compliance function

The Compliance Oversight requirements of the Compliance function are delivered by the Compliance Monitoring team which sits within the Regulatory Risk team under Group Risk. This is an independent function in the second line of defence and provides assurance to the Boards that the Group is operating within a compliant framework. Whilst compliance with regulation remains the responsibility of senior management assigned to specific roles, the Compliance function ensures that the appropriate mechanisms exist to support management in discharging their responsibilities to this end. In addition, the Compliance function provides assurance through its Line 2 Compliance Monitoring programme and is responsible for identifying and assessing the impacts of new regulations and disseminating these to the relevant parties.

An annual Compliance Monitoring plan is developed through a risk-based approach and approved by the relevant Board Risk Committee. This plan includes specific Solvency II requirements as determined through the regulations or internally, which is in addition to the independent validation in relation to the Internal Model.

The Regulatory Risk Policy and Guidance team monitor regulatory and industry developments which may impact the Group and its policyholders and ensure that these developments are identified in a timely manner, interpreted, cascaded appropriately, and that relevant actions are agreed and effectively implemented. The team, which supports both Group functions and Life Companies' functions, monitors the delivery of actions, providing challenge, oversight and senior management assurance around the effective management of regulatory risk in this regard.

Details of the Compliance function of the acquired Standard Life insurance subsidiaries are included in the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

SYSTEM OF GOVERNANCE CONTINUED

B.5 INTERNAL AUDIT FUNCTION

The primary role of the Phoenix Group Internal Audit ('PGIA') function is to support the Board and Executive Management in protecting the assets, reputation and sustainability of the organisation. This is achieved by assessing whether all significant risks are identified and appropriately reported, assessing whether they are adequately controlled and challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

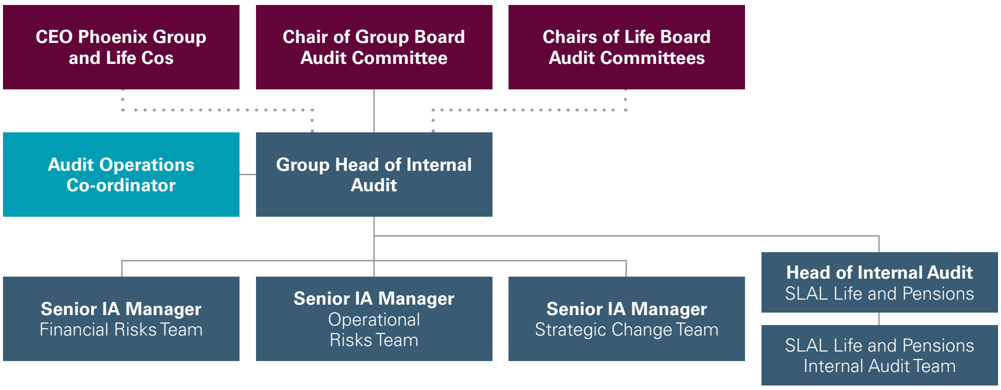
PGIA operates in compliance with the International Standards for the Professional Practice of Internal Auditing, the Internal Audit Code of Ethics and the Guidance on Effective Internal Audit in the Financial Services Sector.

The full Internal Audit Charter can be found on the governance pages of the Group's website (http://www.thephoenixgroup.com/about-us/corporate-governance/board-committees/audit-committee/group-internal-audit-charter.aspx).

Details of the Internal Audit function of the acquired Standard Life insurance subsidiaries are included in section B.5 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

B.5.1 Structure of Internal Audit

A summarised structure chart (applicable until the end of 2018) for the Internal Audit function post acquisition of the Standard Life Assurance businesses is shown below:



Following the acquisition of the Standard Life Assurance businesses on 31 August 2018, internal audit staff were added to the functional reporting lines, per the above chart. These staff apply the same operating procedures as the rest of the department.

B.5.2 Roles and responsibilities of Internal Audit

The Internal Audit scope is unrestricted and there are no aspects of the organisation which PGIA is prohibited from reviewing. Key business risk areas and industry themes identified both internally and externally, are prioritised to receive more extensive coverage, regular ongoing review and opinion formation.

The function has a number of responsibilities, including the following:

- Production of Internal Audit plans: PGIA plans, and material changes to plans, are approved by the Group Board Audit Committee BAC ('BAC') (further details on the Committee are included in Section B.1). They have the flexibility to deal with unplanned events to allow PGIA to prioritise emerging risks. Changes to the audit plan are considered through PGIA's ongoing assessment of risk. In setting its plans, PGIA takes into account business strategy, risk and control culture. PGIA forms an independent view of whether the key risks to the organisation have been identified, including emerging and systemic risks, and assesses how effectively these risks are being managed. PGIA's independent view is informed, but not determined, by the views of Management or the Risk function. In deciding the audit plan, PGIA focuses on areas where it considers risk to be higher and will not necessarily cover all risk universe scope areas every year.
- Oversight of Internal Audit functions: In the case of the Group's OSPs, PGIA operates a risk-based oversight model to ensure the activities of the outsourced Internal Audit functions meet PGIA standards (which are aligned to Chartered Institute of Internal Audit standards).

SYSTEM OF GOVERNANCE CONTINUED

B.5 INTERNAL AUDIT FUNCTION CONTINUED

B.5.3 Reporting

PGIA attend, and issue reports to the PGH BAC and Phoenix Life BACs (see section B.1.6) and any other governing bodies and Board committees as appropriate.

PGIA's reporting to the PGH BAC includes significant control weaknesses, root-cause analysis, themes and a view on management's remediation plans. Bi-annually, PGIA provides an opinion on the strength of the design and operation of the Risk Management/Internal Control Framework (and adherence to the risk appetite framework across the business).

B.5.4 Independence and objectivity of the Internal Audit function

In order to maintain its independence and objectivity from the activities it reviews, PGIA ensures the following:

- The Group Head of Internal Audit ('GHIA') reports to the Group BAC (through the Chair) and to the CEO on a day-to-day basis. Where the GHIA's tenure exceeds seven years, the Group BAC will explicitly assess independence and objectivity annually. The Group BAC Chair is the final approval point for recommendations made by the CEO regarding the performance objectives, appraisal, appointment or removal of the GHIA, as well as the overall compensation package of the GHIA which is further ratified by the RemCo.
- The remuneration of the GHIA and the Senior Internal Audit Managers is structured in a manner such that it avoids conflicts of interest, does not impair independence and objectivity and is not directly or exclusively linked to the short term performance of the organisation.
- The GHIA ensures that PGIA remains free from anything that impacts its ability to carry out its responsibilities in an unbiased manner.
- PGIA has the right to attend and observe all or part of executive management meetings and any other key management decision-making forums. It also has sufficient and timely access to all Board and Executive management information and a right of access to all of the organisation's records, necessary to discharge its responsibilities.
- Effective Risk Management, Compliance and other assurance functions are an essential part of the Group's corporate governance structure. PGIA is independent of these functions and is neither responsible for, nor part of, them. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances does PGIA rely exclusively on the work of these other assurance providers. PGIA exercises informed judgement as to when to leverage the work of other assurance providers and always examines for itself an appropriate sample of the activities under review, after a thorough evaluation of the effectiveness of other assurance providers' work in relation to the applicable area.

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION

B.6.1 Organisational structure

The Actuarial function within the Group comprises:

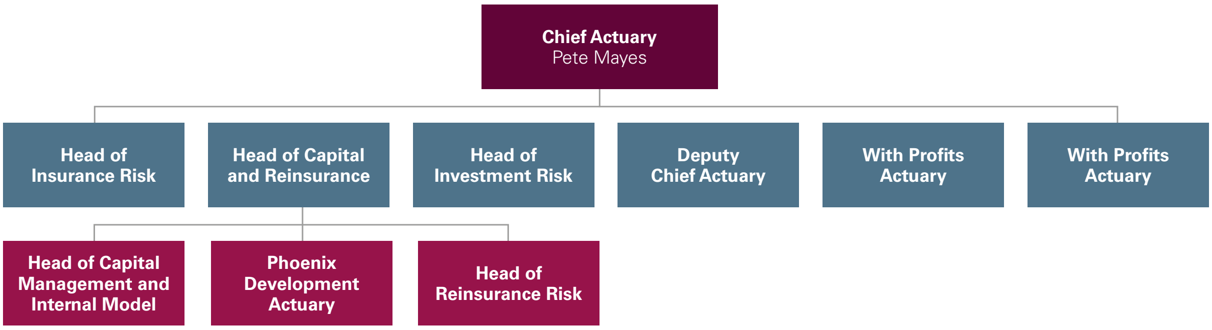
- The Phoenix Life Actuarial department, headed by the Phoenix Life Chief Actuary;
- The Abbey Life Actuarial department (until quarter one 2018), headed by the Abbey Life Chief Actuary; and
- The Group Actuarial department, headed by the Group Chief Actuary.

The Actuarial function provides a range of actuarial services and advice to the Boards and management teams of the insurance subsidiaries and PGH.

There are separate Actuarial functions covering the acquired Standard Life Assurance businesses. Further details can be found in Section B.6 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

B.6.2 Phoenix Life Actuarial department

A structure chart for the Phoenix Life Actuarial department is provided below.



The Phoenix Life Chief Actuary is also the Chief Actuary of PLAL. The Phoenix Life Deputy Chief Actuary is Chief Actuary of PLL.

During the first quarter of 2018 the ALAC Actuarial function transitioned to the Phoenix Life Actuarial department, led by the Phoenix Life Chief Actuary. The Phoenix Life Actuarial department detailed below therefore covers PLL and PLAL.

B.6.2.1 Key team roles within Phoenix Life Actuarial department

A summary of the role of each team within the Phoenix Life Actuarial department is outlined below.

Capital Management

The Capital Management team's role is to ensure that an appropriate amount of capital is held in each of the Group's insurance subsidiaries. The team oversees a capital policy which is designed to achieve the following objectives:

- to provide appropriate security for policyholders and meet all regulatory capital requirements while not retaining unnecessary excess capital; and
- to ensure sufficient liquidity to meet obligations to policyholders and other creditors.

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

This team also review the results of the solvency monitoring process which estimates how the solvency of the companies has changed since the last full valuation. These results are reported weekly to senior management and monthly to management committees and Boards. The team also ensures processes are in place to escalate any breaches of the SCR and identify remedial actions.

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION CONTINUED

B.6.2 Phoenix Life Actuarial department continued

B.6.2.1 Key team roles within Phoenix Life Actuarial department continued

Internal Model team

The Internal Model team works with other teams within the business to ensure that the Phoenix partial Internal Model remains in line with the PRA-approved model. This includes managing the regulatory approval process for any changes required to models, methodology and reporting processes in line with the latest regulatory and industry requirements.

In particular, the team recommends the methodology for calculating Solvency II regulatory capital and co-ordinates an opinion on the adequacy and reliability of the Technical Provisions.

This team is also responsible for the oversight of the Life Actuarial department's compliance with the risk reporting requirements of the RMF.

Investment Risk team

The primary role of the Investment Risk team is to ensure that the assets backing liabilities are appropriately matched. This work considers cash flow matching, hedging via use of derivatives, and review of asset mixes and investment strategy. Other key roles include providing support for shareholder and policyholder-related projects, management actions and managing the associated ALM implications.

Insurance Risk team

The Insurance Risk team is involved in all areas of managing longevity, mortality, persistency and morbidity risk. Longevity and persistency risk are key risks to which the Group is exposed and effective management of these is critical to meeting Phoenix's objectives.

The team ensures appropriate management of insurance risk by developing a risk management strategy, conducting experience investigations, setting best estimate and Solvency II stress assumptions and reporting and oversight of activities in other functions relating to insurance risk.

The team is also responsible for new business pricing which includes significant annuity and protection new business volumes.

Project Developments team

The Project Developments team lead and provide technical support for the planning and execution of a wide range of strategic projects to meet fund, entity and Group objectives. Projects include intra-group and external Part VII transfers (a court-sanctioned legal transfer of some or all of the policies of one company to another) and a variety of other projects (for example, developing new reassurance arrangements, and with-profit initiatives).

The Phoenix Life Actuarial department provides project support to all parts of the Group.

Reinsurance Risk team

The Reinsurance Risk team leads the relationship with all external reinsurance counterparties, maintains the Reinsurance strategy, seeking to leverage capital efficiencies from existing and potential new reinsurance agreements. The team also maintains oversight of key reinsurance risks to which the Group is exposed to through existing reinsurance arrangements.

With-profits Actuary

The role of the With-Profits Actuary is to act as With-Profits Actuary for designated funds. This involves proactively monitoring all aspects of the financial management of the With-Profits funds to ensure that policyholders are treated fairly and developing the future strategy for the financial management of these funds.

B.6.2.2 Key responsibilities of the Phoenix Life Actuarial function under Solvency II

The key responsibilities of the Phoenix Life Actuarial function under Solvency II are to:

- inform stakeholders about the reliability and adequacy of the calculation of technical provisions;
- express an opinion on the adequacy of reinsurance arrangements;
- express an opinion on the overall underwriting policy; and
- contribute to the effective implementation of the risk-management system.

Reliability and adequacy of technical provisions

The Phoenix Life Actuarial department plays a critical role in determining the technical provisions across the following key areas:

- methodology;
- data;
- assumptions;
- calculations; and
- validation.

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION CONTINUED

B.6.2 Phoenix Life Actuarial department continued

B.6.2.2 Key responsibilities of the Phoenix Life Actuarial function under Solvency II continued

Ultimately, the Life Actuarial department is responsible for presenting the final technical provisions results to the Boards for approval.

The Life Actuarial department is responsible for overseeing the calculation of technical provisions which are performed by the Life Finance department. The role of the Life Finance department and the interaction with Life Actuarial is summarised briefly below.

The Life Finance department are responsible for ensuring the technical provisions have been calculated in accordance with methodology specified by the Life Actuarial department. As part of this work the Life Finance department are responsible for:

- deriving best estimate demographic and expense assumptions from experience investigations;
- running the models and processes used to calculate the technical provisions;
- the accuracy and reliability of liability data and asset data required to calculate the technical provisions;
- initial review of the technical provision results, and understanding key drivers for changes since the previous valuation; and
- operation of validation controls, such as profit and loss attribution, and comparison of actual results with projected results from the solvency monitoring process.

The Life Actuarial department reviews and challenges the technical provisions produced by the Life Finance department and reports on the reliability and adequacy of these to the Boards. The appropriateness of the technical provisions for use in the balance sheet is assessed by carrying out a detailed review of the technical provisions, which may include studying the control reports and analysing the profit and loss attribution.

B.6.2.3 Reinsurance arrangements

The Life Actuarial department is responsible for forming an overall opinion on the adequacy of reinsurance arrangements. This is to ensure that existing arrangements operate effectively and provide the intended risk mitigation. It also includes the monitoring of the credit quality of reinsurance counterparties.

This opinion is largely guided by the oversight responsibilities and activities performed by the Group's Reinsurance Management Committee ('RMC'). The RMC conducts annual reviews of the reinsurance strategy with consideration given to risk limits, risk profile and effectiveness of risk transfer. The RMC may propose changes to reinsurance arrangements consistent with the risk appetite developed and adopted by the Group.

B.6.2.4 Underwriting policy

The Life Actuarial department is also responsible for forming an overall opinion on the underwriting policy. This is to ensure that the underwriting policy and practices in place are appropriate to the risk appetite of the Group and that the technical provisions are determined in a consistent manner.

This opinion is largely guided by the oversight responsibilities and activities performed by the New Business and Pricing Committee and the MCS imposed by the Group's insurance risk policy.

B.6.2.5 Contribution to the risk-management system

The Life Actuarial department contributes to the implementation of key parts of Phoenix's RMF, including:

- methodology to calculate the Internal Model SCR;
- on-going development of the Internal Model;
- review and challenge of the calculated SCR results, which are calculated by the Life Finance department;
- on-going management of risks faced by the insurance subsidiaries and Group by considering capital policy, asset/liability matching and investment strategy;
- managing and monitoring the insurance subsidiaries balance sheets; and
- developing, reviewing, and implementing management actions that may be called upon to improve the financial soundness of the Life Companies and the Group.

The Phoenix Life Chief Actuary, Deputy Chief Actuary and other senior members of the Actuarial department also sit on or chair a number of key internal governance committees.

This role within the governance process ensures the function is well placed to contribute to the development, monitoring and improvement of the Group's risk management system.

SYSTEM OF GOVERNANCE CONTINUED
B.6 ACTUARIAL FUNCTION CONTINUED
B.6.2 Phoenix Life Actuarial department continued
B.6.2.6 Reporting of Actuarial department activities to the Boards
The key tasks undertaken by the Phoenix Life Actuarial department are reported to the Boards and other key stakeholders annually in the 'Actuarial Function Report'.

This report describes the results and outcomes of the key tasks performed by the Actuarial department, along with any material deficiencies arising from them, and highlights where further details can be found regarding recommendations made to address any material deficiencies.

B.6.3 Group Actuarial department
The Group Actuarial department supports the PGH and PA(GI) Boards in ensuring capital is managed efficiently, manages the Group's solvency position, contributes to the development of the Group's investment strategy and identifies and delivers opportunities to enhance shareholder value across the Group.

Group Actuarial relies on the controls, governance and oversight provided by the Phoenix Life Actuarial department and Standard Life Actuarial department in respect of actuarial activities that relate to the insurance subsidiaries, while maintaining oversight through membership on Governance committees.

Group Actuarial key activities are:

- managing and monitoring the Group balance sheet and capital management policies;
- management of the Group's pension schemes;
- maintaining and developing the Group partial Internal Model, particularly in relation to the staff pension schemes and SCR aggregation;
- support on projects;
- pricing and assessment of potential acquisitions;
- pricing and assessment of bulk purchase annuity transactions; and
- development of the Group's investment strategy.

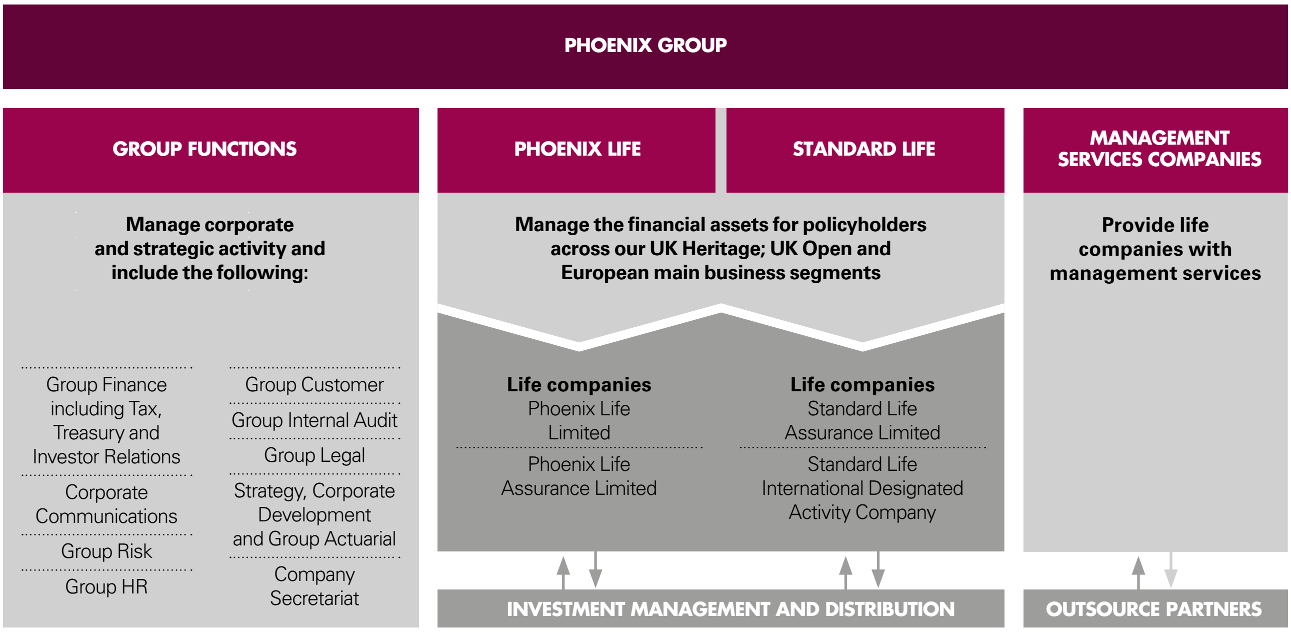
SYSTEM OF GOVERNANCE CONTINUED

B.7 OUTSOURCING

This section provides information on the material outsourcing arrangements undertaken by the Group and details of its outsourcing policy.

Further details regarding the outsourcing relationships in place for the Standard Life insurance subsidiaries can be found in section B.7 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

The diagram below presents the operating structure of the Group and the interaction with the outsource partners.



B.7.1 Service provider relationships

One of the Group's key strategic decisions is to outsource to providers who deliver a range of key services. All service providers are carefully selected following appropriate due diligence.

The Group operates a supplier oversight model, which is a defined MCS within the Sourcing and Procurement Policy detailed in section B.7.2 below. The sourcing model allows for all providers of service to be categorised based upon their risk and materiality to the business. The policy details the minimum standards which the Group are required to employ in establishing and overseeing suppliers, with particular focus on those suppliers who are deemed to be critical and strategically important. All critical and strategically important suppliers have been identified within a Supplier Management Model which defines the manner in which each supplier is overseen. The contracts for strategically important and critical suppliers fully define the requirements of them as a provider of services to the Group. These contracts make clear the obligations which are placed on each supplier.

A Contingency Framework is also in place and recognises that there are risks associated with OSP failure/default which the Group may be accountable for. This framework is reviewed on an annual basis and outputs of any reviews are shared with the FCA.

The outsource partners have scale and common processes, often across multiple clients, which provide several benefits for the Group, including reducing investment requirements, improving the technology used within our administrative capability, and reducing our operational risk.

Specialist roles such as Finance, Actuarial, Risk and Compliance and oversight of the outsource partners are retained in-house, ensuring the Services Companies and Life Companies retain full control over the core capabilities necessary to manage and integrate closed life funds.

SYSTEM OF GOVERNANCE CONTINUED
B.7 OUTSOURCING CONTINUED
B.7.1 Service provider relationships continued

The services provided across the Group's outsourcers are as follows:

B.7.1.1 Management Services Agreements ('MSAs') with Service Companies

The Service Companies are responsible for providing the Phoenix Life Companies with all required management services.

The Services Companies manage relationships with the outsource partners. Without further acquisitions, the number of Phoenix Life policies declines over time and the cost of our operations as a proportion of policies will increase. This risk is managed by paying a fixed price per policy to our outsource partners for policy administration services, which reduces this fixed cost element of our operations and converts it to a variable cost structure.

B.7.1.2 Policy administration

Full policy administration for policyholders of our Phoenix Life companies, including:

- call centre handling;
- policy servicing; and
- claims handling.

Policy administration services are principally UK based, and all fall under FCA jurisdiction with the exception of a small book of policies administered by DST who are based in Dublin. The Group's key OSPs for policy administration are listed below. There are also a number of suppliers who service a small number of policies operating under the Phoenix Supplier management model

Policy administration OSPs	PLL	PLAL	ALAC
Diligenta Established in 2005, Diligenta are a UK-based subsidiary of Tata Consultancy Services ('TCS'), and a leading provider of business process services for the life and pensions industry. Specifically, Diligenta provide life and pensions business process services to our policyholders delivering contact centre, policy servicing and claims administration for circa 3.3 million live policies for PLL. In managing the Phoenix account, Diligenta operate out of three principal UK locations, Peterborough, Liverpool and Basingstoke, and are supported by overseas locations in India.	✓	✓	–
Capita Life and Pensions A major supplier of business process services to the UK life and pensions industry. Specifically, Capita Life and Pensions provide life and pensions business process services to our policyholders delivering contact centre, policy servicing and claims administration for circa 1.9 million live policies. In managing the Phoenix account, Capita operate out of three principal UK locations, Glasgow, Craigforth and Bournemouth, and are supported by overseas locations in India.	✓	–	✓
HCL (formerly Liberata) A smaller, but critical, UK regulated business process service relationship exists with HCL (circa 120k live policies) who operate out of Romford, supported by overseas locations in India.	✓	–	–
DST (formerly International Financial Data Services ('IFDS')) A smaller, but critical, UK regulated business process service relationships (circa 17k live policies) who operate out of Dublin.	✓	–	–
FNZ A smaller, but critical, UK regulated business process service relationship (circa 3k policies) who operate out of Basingstoke.	✓	–	–

B.7.1.3 Fund accounting and investment management

Service providers are used which provide the Phoenix Life Companies with:

- Fund accounting and custody services; and
- Investment management of assets owned by the Life Companies under agreed Investment Management Agreements and associated mandates.

Investment, fund accounting and custody services are operated by service providers who are principally UK based. The Group's key providers of these services are listed below.

SYSTEM OF GOVERNANCE CONTINUED
B.7 OUTSOURCING CONTINUED
B.7.1 Service provider relationships continued
B.7.1.3 Fund accounting and Investment Management continued

Fund accounting and investment management OSP	PLL	PLAL	ALAC
HSBC Provide end-to-end securities services incorporating fund accounting and custody services.	✓	✓	–
Standard Life Aberdeen A leading investment management group.	✓	✓	✓
Henderson Global Investors A global investment company, providing investment management services.	✓	✓	–
Architas Part of the AXA Group, providing specialist investment management services.	✓	–	–
Deutsche Asset Management ('DAM') Investment Manager managing a portfolio of non-linked and shareholder assets on a non-discretionary basis. Services were provided during 2018 and have now been curtailed.	–	–	✓
State Street Undertaking custodian, collateral and investment administration services. Services were provided during 2018 and have now been curtailed.	–	–	✓

There are also a number of Investment managers who service a small number of investments operating under the Phoenix Supplier management model.

B.7.1.4 Other relationships
PA(GI) has contracted KPMG based in the UK to provide complaints handling services with regards to its past mis-selling claims.

B.7.2 Sourcing and procurement policy
Sourcing is the structuring of the supply base, including the evaluation, selection and appointment of suppliers to support the operating model of the organisation and key functions. Procurement is the acquisition of goods or services to meet specific business needs and the creation of commercial and legal agreements to fulfil specific requirements.

The Group has a sourcing and procurement policy in place which seeks to manage sourcing and procurement risk (the risk of reductions in earnings and/or value through financial or reputational loss associated with procuring services and managing service providers).

The policy covers the Group's MCS which are to be adhered to when evaluating, selecting, implementing and managing suppliers in order to ensure risk is managed appropriately. The policy also contains the key risks associated with sourcing and procurement and the MCS in place to mitigate those risks to within an acceptable risk appetite. This aligns with the Risk and Control Framework operated across the Group to manage risk. Further details on the Risk and Control Framework can be found in section B.3.

B.7.3 Board oversight
Management oversight committees are in place to oversee OSPs. A material outsourcer report is produced monthly, and presented to the Operations Committee on a quarterly basis.

Risk and control reporting, including the outsourcer view is maintained through the completion of a Line 1 risk report (an outcome report, aligned to the Phoenix risk universe and RMF). This report is reviewed and approved by the relevant Management Board on a monthly basis and is submitted to the relevant Life Risk Committee on a quarterly basis.

SYSTEM OF GOVERNANCE CONTINUED

B.8 ANY OTHER INFORMATION

B.8.1 System of governance – assessment of adequacy

Overall, it has been deemed that the system of governance in place within the Group is adequate to meet the requirements of the Solvency II Directive, demonstrated by the framework described herein.

There is no further material information to be disclosed regarding the system of governance.

SECTION C
RISK PROFILE

IN THIS SECTION

RISK PROFILE

Section B.3 sets out the risk management system including information on how the Risk Management Framework is implemented and integrated into the organisational structure and decision-making processes of the Group and its insurance subsidiaries.

This section provides information on the risk profile of the Group and its Phoenix Life insurance subsidiaries, including for each category of risk, a description of the risks, a description of the measures used to assess these risks, material risk exposures, concentrations and risk mitigation techniques. The equivalent information for the acquired Standard Life insurance subsidiaries can be found in their solo SFCRs.

Sensitivity analysis for each category of risk is also provided for the Group and its main insurance subsidiaries.

To show an indicative overall PGH Group view, (where relevant) the underlying tables within this section present the risk profile of the Phoenix Life insurance subsidiaries (Method 1 entities) alongside the risk profile of the Standard Life insurance subsidiaries (Method 2 entities). However, the risk capitals are calculated on two different Internal Models (together with a Standard Formula component), each with different stress calibration assumptions and methodologies. The PGH Group SCR is a straight sum of the Method 1 and Method 2 entities without any allowance for differences in underlying Internal Models. To give an indicative exposure of the overall risk profile for the PGH Group, the risk profiles for each entity have been aggregated across the different risk types using a simple pro rata approach.

The chart below shows a high-level view of the composition of the PGH Group undiversified SCR, aggregated across Method 1 and Method 2 entities, based on the different Internal Models.

The undiversified SCR of the underlying insurance subsidiaries is presented below.

Risk profile of insurance subsidiaries and the Group	Section reference	PLL	PLAL	PA(GI)	PGH Group Method 1	SLAL	SLIDAC	SLPF	PGH Group Method 2	PGH Group Methods 1 and 2 Total
Underwriting risk	C.1	34%	42%	0%	**34%**	34%	49%	2%	**35%**	**35%**
Market risk	C.2	26%	20%	0%	**25%**	34%	48%	0%	**34%**	**28%**
Credit risk	C.3	27%	27%	0%	**26%**	20%	2%	98%	**20%**	**24%**
Liquidity risk	C.4	0%	0%	0%	**0%**	0%	1%	0%	**0%**	**0%**
Operational risk	C.5	11%	10%	100%	**11%**	12%	0%	0%	**11%**	**11%**
Other risks	C.6	2%	1%	0%	**4%**	0%	0%	0%	**0%**	**2%**
Total		100%	100%	100%	**100%**	100%	100%	100%	**100%**	**100%**

The Group and its Phoenix Life insurance subsidiaries are generally exposed to similar risks although the extent of exposures varies depending on the LoB underwritten by the insurance undertaking and the asset portfolios held.

Sections C.1 to C.6 set out, for each of the risks, a description of the material risks that the Group and the Phoenix Life insurance subsidiaries are exposed to, the risk measurement techniques used to assess these risks, risk concentrations, and a description of risk mitigation techniques used for mitigating these risks. Section C.7 sets out the results of stress testing and sensitivity analysis for material risks.

The Group and its Phoenix Life insurance subsidiaries do not hold SCR for liquidity risk, as explained further in Section C.4.1.

More details regarding the SCR are set out in section E.2.

RISK PROFILE CONTINUED

C.1 UNDERWRITING RISK

C.1.1 Risk exposure

This section describes the underwriting risk exposures of the Phoenix Group (excluding the acquired Standard Life insurance subsidiaries), for the year ended 31 December 2018. The equivalent information for the acquired Standard Life insurance subsidiaries is available in the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

Underwriting risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. Contracts underwritten by the Phoenix Life insurance subsidiaries within the Group include the following sources of underwriting risk:

Risk source	Description
Mortality risk (including catastrophe risk)	Higher than expected number of death claims on assurance products or occurrence of one or more significant claims.
Longevity risk	Lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality.
Morbidity risk	Higher than expected number of inceptions on critical illness or income protection policies and lower than expected termination rates on income protection policies.
Expense risk	Unexpected timing or value of expenses incurred.
Lapse risk (including persistency risk)	Adverse movement in either surrender rates or persistency rates on policies, leading to losses. This includes the risk of greater than expected policyholder option exercise rates giving rise to increased claims costs.
New Business pricing risk	Inadequate or inappropriate pricing of new business.

The table below shows the split of the undiversified SCR in respect of underwriting risk.

Components of underwriting risk	PLL	PLAL	PGH Group Method 1	SLAL	SLIDAC	SLPF	PGH Group Method 2	PGH Group Methods 1 and 2 Total
Longevity risk	53%	56%	**57%**	31%	0%	0%	**31%**	**45%**
Lapse risk (including persistency risk)	35%	40%	**35%**	48%	72%	0%	**48%**	**41%**
Other underwriting risk	12%	4%	**8%**	21%	28%	100%	**21%**	**14%**
Total underwriting risk	100%	100%	**100%**	100%	100%	100%	**100%**	**100%**

Details of the undiversified SCR in respect of underwriting risk for the Standard Life insurance subsidiaries are included within the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

In addition to exposure arising from contracts underwritten by the Phoenix Life insurance subsidiaries, the Group is also exposed to longevity risk arising from the Pearl Group Staff Pension Scheme ('Pearl Scheme'), the PGL Pension Scheme and the Abbey Life Staff Pension Scheme ('Abbey Life Scheme').

During the year ended 31 December 2018, the key changes to underwriting risk exposure include:

- a weakening of longevity assumptions and a strengthening of mortality assumptions (as a result of a greater number of deaths than expected);
- strengthening of best estimate late retirement assumptions within PLAL and introduction of late retirement assumptions for ex-ALAC unit-linked business now within PLL;
- the successful acquisition of Bulk Purchase Annuity books, however all resulting longevity exposure is reinsured externally; and
- review of the postcode mortality assumptions underlying the pricing of vesting annuities within the Group.

RISK PROFILE CONTINUED
C.1 UNDERWRITING RISK CONTINUED
C.1.2 Risk measurement
The Group and its Phoenix Life insurance subsidiaries use several methods to assess and monitor underwriting risk exposures both for individual types of risks insured and the overall risks. These methods include the PRA approved partial Internal Model, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for underwriting risk is assessed using the Group's partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2018, underwriting risk represented 35% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.1.3 Risk concentration
The Group and its Phoenix Life insurance subsidiaries are not exposed to any material concentration of underwriting risk. For all underwriting risks described above, the Group's exposure is spread across a diversified portfolio of products with approximately 10 million individual policyholders. No individual policyholder contract size is large enough to represent a material concentration as a proportion of the Group's total risk exposure.

C.1.4 Risk mitigation
The Group and its Phoenix Life insurance subsidiaries seek to manage exposure to underwriting risk by establishing Minimum Control Standards ('MCS') and supporting practices that align with its agreed principles. Risk appetite statements have been established for underwriting risks and the risk exposures are monitored against agreed limits.

The ongoing effectiveness of insurance risk mitigation is monitored on a regular basis by the Finance and Capital Committee ('FCC') and the Group Finance Committee ('GFC').

The hedging of underwriting risk through reinsurance and other forms of risk transfer is used to manage the overall level of exposure to underwriting risk.

As at 31 December 2018, the Phoenix Life Companies and the Group held the following reinsurance recoverable balances.

	Reinsurance recoverables £m	Largest counterparty
PLL	7,165	Legal & General Assurance (Pensions Management) Limited
PLAL	2,521	PLL
Other[1]	(1,608)	–
PGH Group	**8,078**	Legal & General Assurance (Pensions Management) Limited

1 Other includes consolidation items in respect of intra-group reinsurance arrangements.

The majority of the underwriting risk that has been ceded relates to annuitant longevity risk, which has been transferred by a mixture of conventional reinsurance treaties and longevity swaps.

The ongoing effectiveness of the reinsurance ceded externally by the Phoenix Life Companies is monitored on an ongoing basis by the Reinsurance Management Committee ('RMC').

RISK PROFILE CONTINUED
C.1 UNDERWRITING RISK CONTINUED
C.1.5 Sensitivity analysis

As part of the Group's internal risk management processes, the impact of a number of underwriting risk scenarios on the SCR is monitored. The results of such stress testing on the Group's SCR and each main insurance subsidiary's SCR are provided below.

	PLL		PLAL		SLAL		PGH Group[4]	
SCR £m (or %)	SCR (£m)	Solvency Ratio (%)	SCR (£m)	Solvency Ratio (%)	SCR (£m)	Solvency Ratio (%)	SCR (£m)	Solvency Ratio (%)
Base: 1 January 2019[1]	2,911	140%	1,214	132%	2,477	170%	7,085	146%
Following 6% decrease in annuitant mortality rates[2]	2,843	135%	1,189	124%	2,497	161%	7,016	140%
Following 10% increase in assurance mortality rates	2,897	137%	1,215	132%	2,477	169%	7,073	144%
Following a 10% change in lapse rates[3]	2,737	137%	1,168	119%	2,425	168%	6,813	142%

1 Assumes stress occurs on 1 January 2019.
2 Equivalent of six-month increase in longevity applied to the annuity portfolio.
3 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
4 The impact of the sensitivity on the overall Group including the acquired Standard Life insurance subsidiaries.

As can be seen from the results, the Group and its insurance subsidiaries are resilient to such scenarios, with the largest exposure being to a decrease in annuitant mortality rates.

RISK PROFILE CONTINUED

C.2 MARKET RISK

C.2.1 Risk exposure

This section describes the market risk exposures of the Phoenix Group (excluding the acquired Standard Life insurance subsidiaries) for the year ended 31 December 2018. The equivalent information for the acquired Standard Life insurance subsidiaries is available in the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market influences. The Group and its Phoenix Life insurance subsidiaries are exposed to the following sources of market risk:

Risk source	Description
Interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate relative to the respective liability due to the impact of changes in market interest rates and the associated guarantees on certain insurance contracts.
Equity risk	The risk of reduction in earnings and/or value, from unfavourable movements in equity asset values and/or equity volatility. In this context, equity assets should be taken to include shares, equity derivatives and equity collectives (OEICs, unit trusts, investment trusts).
Property risk	The risk of reduction in earnings and/or value, from unfavourable movements in property asset values and/or property volatility. In this context, property assets should be taken to include direct property investment, shares in property companies, property collectives (OEICs, unit trusts, investment trusts) and structured property assets.
Gilt swap spread risk	The risk of reduction in earnings and/or value, from unfavourable movements in the spread between government bond yields and swap rates used to discount insurance liabilities.
Inflation risk	The risk of reduction in earnings and/or value, due to inflation, e.g. price inflation or wage inflation, leading to an unanticipated change in insurance cost.
Currency risk	The risk of reduction in earnings and/or asset and liability values, arising as a consequence of changes to currency exchange rates. This risk category also covers the risk of a change in swap rates in one currency, relative to the swap rate in another currency.
Alternative assets risk	The risk of reduction in earnings and/or value, from unfavourable movements in the value and/or volatility of investments in alternative asset classes. In this context, alternative asset classes should be taken to include hedge funds and private equity vehicles.

Investment markets showed negative returns in 2018. UK equity markets fell, with the FTSE All Share Index closing approximately 7% behind the 31 December 2017 position. Phoenix seeks to hedge the majority of shareholder exposure from declines in equity markets through the use of derivatives. The decrease in equity markets over the period led to an increase in value of the put options which have been recognised in the IFRS results, with the solvency position broadly unchanged as expected. Swap yields have increased over the period. Credit spreads widened across ratings and implied future inflation rates increased during the year.

During the year ended 31 December 2018, the key changes to market risk exposure included:

- the acquisition of the Standard Life Assurance businesses and implementation of the Group's equity and currency hedging strategy to the acquired Standard Life businesses;
- issuance of the €500 million Tier 2 bond increasing the Group's exposure to fluctuations in the Euro to Sterling currency conversion rate. However the Group has entered into cross currency swaps in order to fix the value of the coupon and principal payments. Further details are set out on page 84;
- successful acquisition of Bulk Purchase Annuity books; and
- increased investment in illiquid assets.

RISK PROFILE CONTINUED
C.2 MARKET RISK CONTINUED
C.2.1 Risk exposure continued

The table below shows the split of the undiversified SCR in respect of market risk for each of the Phoenix Life insurance subsidiaries and the Group. Details of the undiversified SCR in respect of market risk for the Standard Life entities are included within the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

Components of market risk	PLL	PLAL	PGH Group Method 1	SLAL	SLIDAC	SLPF	PGH Group Method 2	PGH Group Methods 1 and 2 Total
Interest rate risk	38%	45%	**36%**	55%	2%	0%	**54%**	**45%**
Gilt swap spread risk	19%	31%	**20%**	0%	0%	0%	**0%**	**10%**
Other market risks	43%	23%	**44%**	45%	98%	0%	**46%**	**45%**
Total market risk	100%	100%	**100%**	100%	100%	0%	**100%**	**100%**

C.2.2 Risk measurement

The Group and the Phoenix Life insurance subsidiaries use several methods to assess and monitor market risk exposures both for individual market risk categories and for the aggregate exposure to all market risks. These methods include monitoring of asset portfolio composition, interest rate mismatch risk metrics, strategic asset allocation, and hedge effectiveness. In addition, risk is measured using the PRA approved partial Internal Model, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for market risk is assessed using the Group's partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2018, market risk represented 28% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.2.3 Risk concentration

The asset concentrations are managed through the Group's strategic asset allocation process, with the allocation to each asset class being agreed by the insurance subsidiary Boards.

The operation of agreed market risk concentration limits at fund level ensures that the Group and the Phoenix Life insurance subsidiaries are not overly exposed to any single country, sector or individual counterparty.

C.2.4 Risk mitigation

Interest rate risk

With-profit business and non-participating business within the with-profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest securities and derivatives. For with-profit business, the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits dependent on the existence of policyholder guarantees. The contribution of these funds to the Group result is determined primarily by either the shareholders' share of the declared annual bonus or by the shareholders' interest of any change in the value of the capital advanced to the insurance subsidiaries' with-profit funds ('supported'). The capital is exposed to all economic movements until the estate is rebuilt to cover the required capital, at which point the fund becomes 'unsupported'.

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 health and other life insurance funds including Matching Adjustment annuity funds. For participating business, increased exposure to interest rate risk is permitted where it is consistent with the principles of treating customers fairly. The with-profit funds of the Group provide capital to allow such mismatching to be effected. In practice, the Phoenix Life insurance subsidiaries within the Group maintain an appropriate mix of fixed and variable rate instruments (including cash and derivatives) according to the underlying policyholder liabilities and a review is performed 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.

In the non-participating funds and particularly Matching Adjustment annuity funds, policy liabilities' sensitivity to interest rates are matched primarily with fixed and variable rate income securities and derivatives, with the result that sensitivity to changes in interest rates is low.

The Group's pension schemes exposure to interest rates is largely hedged through the use of long dated gilts and interest rate swaps, within the schemes.

RISK PROFILE CONTINUED
C.2 MARKET RISK CONTINUED
C.2.4 Risk mitigation continued

Equity and property risk

The Group's objective in holding equity and property assets is to earn higher long-term returns by investing in a diverse portfolio of equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's equity holdings are diversified across industries, and concentrations in any one company or industry are limited. The Group's exposure to property risk has increased due to increased investment in illiquid credit assets such as ERM and Commercial Real Estate ('CRE').

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and treating customers fairly. This is largely achieved through asset class diversification and within the Group's ALM framework through the holding of derivatives or physical positions in relevant assets to hedge equity risk where appropriate. Any residual equity exposure emanating at Group is hedged, if necessary, to keep the Group exposure within risk appetite.

The Group's pension schemes also retain a material exposure to property risk. Risk exposures are managed via each scheme's investment strategy, as agreed with the trustees.

Inflation risk

The Group is exposed to inflation risk through annuity policies and the Group's pension schemes, which may provide for future benefits to be paid taking account of changes in the level of experienced and implied inflation, and also through the Group's cost base. The Group seeks to manage inflation risk through the holding of derivatives, such as inflation swaps, or physical positions in relevant assets, such as index-linked gilts, where appropriate.

Gilt swap spread risk

The Phoenix Life insurance subsidiaries accept some residual exposure to gilt-swap spread risk. This exposure arises where UK Gilts are held as assets but policyholder liabilities are discounted using the EIOPA risk-free reference rate, which is based on the swap curve. For the Group's pension schemes, where liabilities are valued using a gilts-based curve, gilt-swap spread exposure exists where swaps are held to hedge the liabilities. The exposure to gilt-swap spread risk is managed to stay within the overall risk appetite of the Group.

Currency risk

The Group and its Phoenix Life insurance subsidiaries' financial assets are primarily denominated in the same currencies as its policyholder liabilities. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which policyholder liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

The Group and its Phoenix insurance subsidiaries have some exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the investment committees of the Boards of each insurance subsidiary. Fluctuations in exchange rates from certain holdings in overseas assets are hedged against currency risks.

Following the issue of US Dollar/Euro Tier 2 bonds in 2017 and 2018, the Group entered into cross-currency swaps in order to fix the GBP value of the coupon and principal payments on the bonds. The Group holds risk capital against the risk of adverse changes in foreign exchange rates and foreign currency swap margins, which may reduce the value of the swaps. In the assessment of currency risk, adverse movements in the value of the swaps are not offset by movements in the value of the foreign currency Tier 2 bonds, as the bonds qualify as Solvency II eligible capital, so do not provide an offset in the capital position.

The Group is also exposed to currency risk relating to currency forwards held at Group level. These instruments are held to hedge the currency risk exposure from Standard Life's unit-linked business. Although the hedges reduce the overall currency exposure of the Group, the SCR calculation does not reflect the offset between the hedges and the underlying SLAL currency exposure.

RISK PROFILE CONTINUED
C.2 MARKET RISK CONTINUED
C.2.4 Risk mitigation continued
Alternative assets risk

PLL and PLAL hold alternative assets as part of their wider diversified portfolios. The risks are managed in accordance with the ALM framework, taking into account the ALM targets and risk appetite of the funds in question.

The Company has increased exposure to illiquid credit assets such as ERM, private placements 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 Matching Adjustment portfolios include exposure to ERM. The interest rate risk in respect of these illiquid assets is matched to liabilities in order to leave a low residual interest rate risk exposure. The potential adverse loss in respect of these illiquid assets is modelled using bespoke in-house models reflecting the specificities of these asset classes.

The Group's pension schemes also retain a material exposure to alternative assets risk.

The ongoing effectiveness of market risk mitigation is monitored on a regular basis by the Investment Management Committee ('IMC').

C.2.5 Sensitivity analysis

As part of the Group's internal risk management processes, the impact of a number of market risk scenarios on the SCR is monitored. The results of that stress testing on the Group's and each main insurance subsidiary's SCR are provided below.

	PLL		PLAL		SLAL		PGH Group [3]	
SCR £m (or %)	SCR (£m)	Solvency Ratio (%)	SCR (£m)	Solvency Ratio (%)	SCR (£m)	Solvency Ratio (%)	SCR (£m)	Solvency Ratio (%)
Base: 1 January 2019[1]	**2,911**	**140%**	**1,214**	**132%**	**2,477**	**170%**	**7,085**	**146%**
Following a 20% fall in equity markets	2,860	142%	1,196	132%	2,417	171%	6,957	147%
Following a 15% fall in property values	2,983	138%	1,213	131%	2,475	169%	7,157	144%
Following a 60bps interest rates rise[2]	2,730	141%	1,096	138%	2,251	177%	6,552	149%
Following a 80bps interest rates fall[2]	3,120	140%	1,389	124%	2,684	164%	7,681	142%

1 Assumes stress occurs on 1 January 2019.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 The impact of the sensitivity on the overall Group including the acquired Standard Life insurance subsidiaries.

As can be seen from the results, the Group and its main insurance subsidiaries are resilient to such scenarios.

RISK PROFILE CONTINUED

C.3 CREDIT RISK

C.3.1 Risk exposure

This section describes the credit risk exposures of Phoenix Group (excluding the acquired Standard Life insurance subsidiaries) for the year ended 31 December 2018. The equivalent information for the acquired Standard Life insurance subsidiaries is available in the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. These obligations can relate to both on and off balance sheet assets and liabilities. The Group and the Phoenix Life insurance subsidiaries are exposed to the following sources of credit risk:

Risk source	Description
Spread risk	The risk of reduction in earnings and/or value, arising from changes in the spread between corporate bond yields and gilt yields or corporate bond yields and the swap curve. In this context, spread risk also includes changes in the spreads on ERM, infrastructure loans, commercial mortgage loans, local authority loans and infrastructure investments.
Illiquid credit risk	The risk of reduction in earnings and/or value, from unfavourable movements in the value and/or volatility of investments in illiquid credit asset classes. In this content, illiquid credit assets include ERM, commercial real estate debt and infrastructure debt.
Investment counterparty risk	The risk of reduction in earnings and/or value, arising from counterparty defaults on investments such as bonds, derivatives and cash deposits. This also includes the residual risk of credit risk mitigation techniques being less effective than expected. For example 'gap risk' where derivative or reinsurance collateral fails to move in line with liabilities following a default event.
Reinsurance counterparty risk	The risk of reduction in earnings and/or value, arising from the failure of a reinsurance counterparty to meet its contractual obligations by way of default or delayed claim settlements.
Outsourcer default risk	The risk of reduction in earnings and/or value, arising from default by firms providing outsourced services such as administration and investment management.
Stock-lending risk	The risk of reduction in earnings and/or value, arising as a result of borrowers defaulting on their obligation to return the original stock and the risk arising from the investment of the collateral received in lieu of the borrowed stock.

During the year ended 31 December 2018, the key change to credit risk exposure is the increased investment in illiquid credit assets, including ERM (by acquisition of further back books and ongoing funding of new loans), CRE loans and local authority loans.

C.3.2 Risk measurement

Several methods are used to assess and monitor credit exposures. These methods include monitoring of asset portfolio composition, single name counterparty monitoring, Value-at-Risk ('VaR') and Potential Future Value Exposure modelling. In addition, risk is measured using the PRA approved partial Internal Model, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for credit risk is assessed using the Group's partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2018, credit risk represented 24% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.3.3 Risk concentration

Concentration of credit risk exists where the Group or its Phoenix Life insurance subsidiaries 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. Counterparty credit risk is monitored by the counterparty limits contained within the investment guidelines and investment management agreements. Counterparty risk in respect of over-the-counter ('OTC') derivative counterparties is monitored using a Potential Future Value Exposure metric.

An indication of the exposure to credit risk is the quality of assets. The table below provides information (excluding the acquired Standard Life insurance subsidiaries) regarding the aggregate credit exposure split by credit rating, for direct holdings in government and corporate bonds included in investments (other than assets held for index-linked and unit-linked contracts).

	PLL		PLAL		PGH Group	
Rating	Market value £m	Percentage of Total %	Market value £m	Percentage of Total %	Market value £m	Percentage of Total %
AAA	1,001	8%	193	5%	1,194	7%
AA	6,697	56%	2,561	66%	9,258	58%
A	2,221	19%	596	15%	2,817	18%
BBB	1,181	10%	329	8%	1,510	10%
BB	10	0%	–	0%	10	0%
B and below	94	1%	17	0%	111	1%
Non-rated	722	6%	198	6%	920	6%
Total	**11,926**	**100%**	**3,894**	**100%**	**15,820**	**100%**

As at 31 December 2018, the largest credit counterparty exposures to a single name counterparty in the Group's asset portfolio (excluding the acquired Standard Life insurance sudsidiaries) were:

Top 10 single name credit exposures (£m)	PGH Group
HER MAJESTY'S TREASURY	8,537
EUROPEAN INVESTMENT BANK	592
HSBC HOLDINGS PLC	240
DIRECTION GENERALE DU TRESOR	170
BANCO SANTANDER, S.A.	163
BUNDESREPUBLIK DEUTSCHLAND	143
BANK OF AMERICA CORPORATION	137
COOPERATIEVE RABOBANK U.A.	130
NETWORK RAIL INFRASTRUCTURE FINANCE PLC	121
FGP TOPCO LTD	104

The Phoenix Life insurance subsidiaries and the Group are exposed to concentration risk in respect of reinsurance ceded to external counterparties, although this is largely mitigated by collateral arrangements with the reinsurers and concentration limits in respect of individual reinsurance counterparties.

RISK PROFILE CONTINUED
C.3 CREDIT RISK CONTINUED
C.3.4 Risk mitigation

The insurance subsidiaries and the Group are also exposed to concentration risk with outsource partners. This is due to the nature of the outsourced services market. The Group operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees and measured though the PRA approved partial Internal Model, stress and scenario testing. Further details on the Group's outsourcing arrangements can be found in section B.7.

Credit risk is managed by monitoring aggregate Group exposures to individual counterparties, through appropriate credit risk diversification and via the investment mandates. The Group manages the level of credit risk it accepts through credit risk tolerances. In certain cases, protection against exposure to particular credit risk types may be achieved through the use of derivatives. The credit risk borne by the shareholder on with-profit policies is dependent on the extent to which the underlying insurance fund is reliant on shareholder support.

The ongoing effectiveness of credit risk mitigation described above is monitored on an ongoing basis by the IMC and the RMC.

Further specific mitigation techniques are set out below.

Matching Adjustment portfolio

PLL and PLAL have Matching Adjustment approval in respect of blocks of non-participating immediate annuity business. Credit risk and Matching Adjustment is managed via the investment mandates and with investment in Matching Adjustment eligible assets.

Reinsurers

The Group cedes insurance risk in the normal course of business. The Group has policies and procedures in place for the management of reinsurance counterparty default risk, including the design of new treaties and the regular monitoring of reinsurance counterparties by the RMC.

Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of derivative contracts, reinsurance arrangements and securities lending in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on the terms agreed with the counterparty, which are subject to an assessment of credit risk.

Outsourcers

The Group receives services from different suppliers in relation to policy administration, asset management and fund accounting services. As a result of receiving services from suppliers, the Group is exposed to the risk of default. Risk capital is assessed under a 'Multiple Policy Administration Outsourcer failure and default' scenario.

The selected scenario considers a situation where a number of policy administration suppliers default on contractual obligations and become insolvent. Risk capital is assessed using expert judgement, based on an established methodology and is reviewed and agreed by management oversight committees and the MGC.

The risk capital assessment takes account of the supplier's operating model, control factors and other forms of protection (such as parental letters of credit used to mitigate the risk for certain outsourcers).

C.3.5 Sensitivity analysis

As part of the Group's internal risk management processes, the impact of a credit risk scenario on the SCR is monitored. The results of that stress testing on the Group's and each insurance subsidiary's SCR are provided below and demonstrate the resilience of the Group.

	PLL		PLAL		SLAL		PGH Group[3]	
SCR £m (or %)	**SCR (£m)**	**Solvency Ratio (%)**	**SCR (£m)**	**Solvency Ratio (%)**	**SCR (£m)**	**Solvency Ratio (%)**	**SCR (£m)**	**Solvency Ratio (%)**
Base: 1 January 2019[1]	**2,911**	**140%**	**1,214**	**132%**	**2,477**	**170%**	**7,085**	**146%**
Following credit spread widening[2]	2,807	139%	1,140	130%	2,431	166%	6,835	144%

1 Assumes stress occurs on 1 January 2019.
2 Credit stress equivalent to an average 120bps spread widening across ratings and includes allowance for defaults/downgrades.
3 The impact of the sensitivity on the overall Group including the acquired Standard Life insurance subsidiaries.

RISK PROFILE CONTINUED

C.4 LIQUIDITY RISK

C.4.1 Risk exposure

This section describes the liquidity risk exposures of the Phoenix Group (excluding the acquired Standard Life insurance subsidiaries) for the year ended 31 December 2018. The equivalent information for the acquired Standard Life insurance subsidiaries is available in the underlying SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

Liquidity risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of the Phoenix Life insurance subsidiaries. The Group's Phoenix Life insurance subsidiaries have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. In addition, liquidity risk arises as a result of the funding requirements of the Group pension schemes.

The Group and Phoenix Life insurance subsidiaries do not hold risk capital against liquidity risk. Liquidity risk is managed by holding an appropriate proportion of the assets in liquid form, with the proportion determined based on cash flow projections and stress testing.

During 2018, the Group raised capital markets funding in order to satisfy the consideration payable for the acquisition of the Standard Life Assurance businesses. This involved the issuance of a £500 million Restricted Tier 1 bond in April 2018, £950 million equity rights issue in July 2018, £1 billion share placing in August 2018 and EUR500 million Tier 2 bond issue in September 2018, all of which provided capital and liquidity.

C.4.2 Risk measurement

Regular monitoring of liquidity takes place in order to establish that all liquidity management activities have progressed appropriately, and to ascertain available liquidity.

The Group and Phoenix Life insurance subsidiaries carry out a monthly forecast of liquidity resources and restrictions for the next 12 month period, and a semi-annual forecast covering the five-year planning horizon. Monitoring activities include a review of appropriate liquidity risk measures (for example VaR), as agreed by the PGH Board and insurance subsidiaries' Boards.

In addition to the monthly monitoring described above, the Phoenix Life insurance subsidiaries determine working capital accounts for each fund based on liquidity stress testing and maintain a forecast of liquid resources against two years' policyholder claims.

C.4.3 Risk concentration

Uncertainty of cash outflows for the Phoenix Life insurance subsidiaries arises primarily as a result of mass lapse risk and catastrophe risk. However, the Phoenix Life insurance subsidiaries are not exposed to material concentrations of liquidity risk due to holding sufficient liquidity to cover fluctuations in cash outflows.

PLL and PLAL are also exposed to potential collateral calls for derivative assets held, which may arise from large movements in yields, foreign exchange or equity indices, and in the case of PLL, the longevity swap with RGA.

Collateral is mainly obtained in respect of certain reinsurance arrangements, to provide security against the daily mark to market value of derivative financial instruments and as part of securities lending activity. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist and the asset is not fully secured.

Similarly, PGH is exposed to potential collateral calls in respect of the cross-currency swaps held to hedge the currency risk associated with the US$/EUR Tier 2 bonds and FX forwards held to hedge currency risk of SLAL. PGH holds sufficient liquidity to cover fluctuations in cash outflows.

C.4.4 Risk mitigation

The Phoenix Life insurance subsidiaries' Boards have defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

- liquidity risk is managed in a manner consistent with the Board's strategic objectives, risk appetite and PPFM;
- cash flows are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The Phoenix Life insurance subsidiaries' policy is to maintain sufficient liquid assets of suitable credit quality at all times including, where appropriate, access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared monthly to predict the required liquidity levels over both the short- and medium-term allowing management to respond appropriately to changes in circumstances.

The vast majority of the Phoenix Life insurance subsidiaries' derivative contracts are traded OTC and have a two-day collateral settlement period. As the existing swaps expire, they will be replaced with centrally cleared contracts. The Phoenix Life insurance subsidiaries' derivative contracts are monitored daily, via an end-of-day valuation process, to assess the need for additional funds to cover margin or collateral calls.

RISK PROFILE CONTINUED
C.4 LIQUIDITY RISK CONTINUED
C.4.4 Risk mitigation continued

Liquid assets are held in appropriate accounts to cover internally set buffers to meet collateral calls on derivative assets. This is monitored on a monthly basis.

Some of the Phoenix Life insurance subsidiaries' commercial property investments and cash and cash equivalents are held through collective investment schemes. The collective investment schemes have the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. Over 2018, the collective investment schemes have continued to process both investments and realisations in a normal manner and have not imposed any restrictions or delays.

A significant proportion of the Phoenix Life insurance subsidiaries' financial assets are held in gilts, cash, supranationals and investment grade securities which the Companies consider sufficient to meet the liabilities as they fall due. The vast majority of these investments are readily realisable since most of them are quoted in an active market.

For unit-linked contracts the Phoenix Life insurance subsidiaries match all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest rate, price, currency or credit risk on these contracts. In extreme circumstances, the insurance subsidiaries could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Company considers its risk to be low since there are steps that can be taken first within the funds themselves (e.g. restrictions on withdrawals) both to ensure the fair treatment of all investors in those funds and to protect the Company's own risk exposure.

The Group also has derivative instruments which hedge its exposure to foreign exchange risk. These are all fully collateralised.

The ongoing effectiveness of liquidity risk mitigation described above is monitored on an ongoing basis by the IMC and the FCC.

C.4.5 Stress testing

Liquidity stress testing is carried out on a monthly basis on the Phoenix Life insurance subsidiaries. As at 31 December 2018, the stress testing demonstrated that the insurance subsidiaries held sufficient liquid assets to cover internally agreed liquidity buffers to meet collateral calls under a market risk stress scenario, which is within the Phoenix Life insurance subsidiaries' risk appetite.

C.4.6 Expected Profits in Future Premiums ('EPIFP')

Own Funds are used to cover the SCR (see more details in section E.1). The value of liabilities, included within Own Funds, takes into account expected future premium payments even if the policyholder is not contractually committed to making the payments. This methodology for valuing liabilities therefore implicitly allows for any Expected Profits In Future Premiums ('EPIFP') which reduces the liability value and increases Own Funds.

The contribution of EPIFP to Own Funds is important from a liquidity perspective as the extent of future premiums assumed in the liability valuation may not emerge in practice (for example due to higher than assumed policyholder lapse rates), thus potentially lowering the available Own Funds to cover the SCR.

As at 31 December 2018, the insurance subsidiaries and the Group's EPIFP included as a component of the reconciliation reserve are shown below. This comprised mainly of future profits arising on protection and unit-linked business. The EPIFP shown below is net of reinsurance and net of policyholder tax.

	PLL £m	PLAL £m	SLAL £m	PGH Group £m
EPIFP	257	17	850	1,124

RISK PROFILE CONTINUED

C.5 OPERATIONAL RISK

C.5.1 Risk exposure

This section describes the operational risk exposures of the Phoenix Group (excluding the acquired Standard Life insurance subsidiaries) for the year ended 31 December 2018. The equivalent information for the acquired Standard Life insurance subsidiaries is available in the underlying SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

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

The main sources of operational risk are customer treatment risk and model risk.

During the year ended 31 December 2018, the key changes to the Group's exposure to operational risk include:

- conclusion of the FCA enforcement action in relation to ALAC and removal of capital held during 2018;
- the reduction in risk profile following completion of ALAC operational integration;
- the Phoenix Wealth and SunLife migrations that took place in the first half of 2018;
- the business continued to progress and implement its Digital Strategy, with a consequent increase in our exposure to cyber risk as more customers began to use the online services available to them; and
- uncertainty regarding customer treatment and regulatory compliance risk continued with the publication of further regulatory papers, coupled with the uncertain outcome of Brexit negotiations.

C.5.2 Risk measurement

The risk capital requirement for operational risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The assessment process is based on a frequency-severity approach in which the quantification for each of the top risks faced by the organisation is parameterised directly through workshops, led by expert opinion and increasingly informed by internal and external loss event data.

From a qualitative perspective, the operational risks are regularly reported to management oversight committees.

As at 31 December 2018, operational risk represented 11% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.5.3 Risk concentration

Across the universe of operational risks, the Group's largest operational risk concentrations are customer treatment risk and model risk.

The Group also has concentrations of operational risk that are driven by its business model to outsource to specialist providers of key services covering customer services administration, investment management, certain finance middle office activities and asset custody.

Concentration risk in this respect is defined and managed in line with the Group's Sourcing Strategy which is refreshed on an annual basis.

From a geographical perspective, the Group is not exposed to any material concentration of operational risk, as the OSPs operate from multiple locations within the UK and offshore. This ensures that within individual OSPs effective business continuity solutions which meet the requirements of the Group can be maintained.

Following publication of the regulatory discussion paper on operational resilience during the year, the business began to develop and plan the implementation of a framework that it believes will meet the anticipated new requirements. The outcome of this activity is expected to consider risk concentration and single points of failure in the delivery of key services.

RISK PROFILE CONTINUED

C.5 OPERATIONAL RISK CONTINUED

C.5.4 Risk mitigation

The Group and its Phoenix Life insurance subsidiaries seek to manage exposure to operational risk by establishing MCS (and supporting practices where appropriate) for each risk category. These MCS are defined within individual PGH Group risk policies covering each of the risk categories and are designed to ensure that the Group operates within the low level qualitative risk appetite statements that are defined within those policies. Periodic reporting by risk owners monitors risk exposure against these agreed limits.

The Group risk policies and the MCS outlined within them are key mitigants used to manage the Group's operational risk exposure. In addition, the Group also places reliance upon:

- the transfer of operational risk to our OSPs as part of the outsourcing of non-core activities, with the obligations/liabilities for each outsource arrangement outlined in the relevant contract; and
- the Group's corporate insurance policy which provides cover in respect of a variety of operational risks including product mis-selling and premises.

All the key elements of operational risk mitigation are taken account of on a prudent basis against those operational risk SCR scenarios in which subject matter experts assess that a valid claim could be made. The approach to insurance in the capital model is conservative, with haircuts made for mismatches, willingness of insurer to pay out and residual term of policy from date of a risk event occurring.

The ongoing effectiveness of operational risk mitigation described above is monitored on an ongoing basis by the Operations Committee.

RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS

This section describes the other risk exposures of the Phoenix Group (excluding the acquired Standard Life insurance subsidiaries) for the year ended 31 December 2018. The equivalent information for the acquired Standard Life insurance subsidiaries is available in the underlying SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

Other material risks which should be highlighted are summarised below. As at 31 December 2018, other material risks represented 2% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.6.1 Tax risk

C.6.1.1 Risk exposure

Tax risk is defined as the risk of: financial failure, reputational damage, loss of earnings/value arising from a lack of liquidity, funding or capital, due to:

- an unforeseen tax cost;
- inappropriate recording, reporting or understanding of tax legislation; and
- inappropriate disclosure of financial and regulatory information in relation to taxation.

Tax risk includes the following specific risks:

- the risk of a reduction in earnings/value, through financial or reputational damage, resulting from the Group making a material error in its tax reporting;
- material tax cost in excess of the expected/provided tax number;
- failure to implement the optimum financial arrangements to underpin a commercial transaction;
- reputational damage in respect of tax matters; and
- incorrect operation of policyholder tax requirements.

C.6.1.2 Risk measurement

The risk capital requirement for tax risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology also considers operational tax risk scenarios assessed by experts within the business.

From a qualitative perspective, the tax risks for the Group and its subsidiaries are regularly reported to management oversight committees.

C.6.1.3 Risk concentration

Sources of tax risk that could give rise to concentrations are:

- political: a drive by UK Government to increase tax revenues and to create a social environment in which tax 'avoidance' is considered contrary to the spirit of the law;
- regulatory: changes to tax law that impact the Group's tax position;
- structuring: opportunities to maximise financial or economic value and protect the value of tax assets;
- operational: tax legislation is complex and the potential for operational errors to occur is significant, both by the Group and the OSP in calculating and accounting for direct and indirect taxes; and
- tax penalties: the Tax Authorities have strengthened the penalty regime to levy penalties for non-compliance.

C.6.1.4 Risk mitigation

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. The Group has a formal tax risk policy, which sets out its risk appetite in relation to specific aspects of tax risk, and which details the controls the Group has in place to manage those risks. These controls are subject to a regular review process.

RISK PROFILE CONTINUED
C.6 OTHER MATERIAL RISKS CONTINUED
C.6.2 Customer risk
C.6.2.1 Risk exposure
Customer risk is defined as the risk of reduction in expected earnings and/or value to the Group or its customers, through financial, reputational or operational losses as a result of:

- failure to have in place an appropriate culture, structures, governance and frameworks across the Group to drive ethical and responsible conduct, behaviours, attitudes and decision-making focused on customer interests and outcomes.
- failure to understand our customers' experience, behaviours and needs and act in their interests ensuring they are treated fairly, in line with our strategic objectives, and supported in making good financial decisions;
- inappropriate conduct or failing to act with integrity informed by an understanding of how our actions could influence our customers' choices and behaviour;
- failing to understand situations which may give rise to customer vulnerability, or to identify and respond to indications that customers are potentially vulnerable;
- poor customer treatment or experience (including poor advice) as a result of, but not limited to, inability to satisfy agreed and suitable levels of service (including in the handling of customer complaints). This also includes acting outside of customer instructions, and failing to observe customer confidentiality;
- failure to provide customers with the information they need to make informed decisions about their policy in a way which is clear, accurate and appropriately considers areas in which behavioural bias could arise;
- failure to ensure that products we manufacture and offer to our customers are subject to robust assessments to ensure they are suitable for the target market;
- failure to ensure that products offered to our customers by our affinity partners are subject to robust due diligence;
- failure to ensure that our products remain appropriate and deliver promised outcomes throughout the lifetime of the customer relationship in a manner consistent with the Phoenix culture and current legislative and regulatory requirements; and
- volatile and/or poor fund performance.

C.6.2.2 Risk measurement
The risk capital requirement for customer risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is based on scenarios assessed by experts within the business.

From a qualitative perspective, the customer risks for the Group and its subsidiaries are regularly reported to management oversight committees.

C.6.2.3 Risk concentration
The FCA has had a greater focus on customer outcomes, in recent times. This may continue to challenge existing approaches and/or may result in remediation exercises where the Group cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the Pension Freedoms and taxation can also impact the Group's financial position.

C.6.2.4 Risk mitigation
The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory and legislative change and the impact on our operations and lobbies where appropriate.

Customer risk is managed by maintaining an appropriately-staffed Customer Oversight team who have the qualifications and experience to make judgements on customer matters and direct and oversee the activity undertaken by our outsource service partners. The Group has a formal customer risk policy, which sets out its risk appetite in relation to specific aspects of customer risk, and which details the controls the Group has in place to manage those risks. These controls are subject to a regular review process.

RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS CONTINUED

C.6.3 Strategic risk

C.6.3.1 Risk exposure

Strategic risk is defined as the risk of reduction in earnings and/or value arising from a suboptimal business strategy, or the suboptimal implementation of the plan as agreed by the Board. In assessing strategic risk, consideration is given to both external and internal factors.

C.6.3.2 Risk measurement

The risk capital requirement for strategic risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is based on scenarios assessed by experts within the business.

C.6.3.3 Risk concentration

Strategic risk in its broadest sense can be defined as a possible source of loss that might arise from the pursuit of an unsuccessful business plan. For example, strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

C.6.3.4 Risk mitigation

The Group has a formal strategic risk policy, which sets out its risk appetite in relation to specific aspects of strategic risk, and which details the controls the Group has in place to manage those risks. These controls are subject to a regular review process.

RISK PROFILE CONTINUED

C.7 ANY OTHER INFORMATION

C.7.1 Prudent Person Principle requirements

The Prudent Person Principle in the Solvency II regulations sets out the principles that should apply in making investment decisions. In particular, this requires that the Group and its insurance subsidiaries should only invest in assets and instruments whose risks they can properly identify measure, monitor, manage, control and report, and appropriately take into account when assessing Solvency needs.

The Prudent Person Principle is implemented through the RMF as part of the Group policy framework of which MCS have been designed to ensure compliance. Compliance with the relevant policies is monitored on an ongoing basis. Examples of the MCS in place include:

- responsibility for agreeing the strategic asset allocation rests with the Life Companies' Boards, as advised by the Phoenix Life Investment Committee, Investment Management Committee ('IMC') and the Actuarial function;
- investments for unit-linked and index-linked contracts are governed by the relevant investment mandates which meet the overarching requirements of Group policies, as well as close-matching rules and policy-specific requirements; and
- derivatives are used in many of the Life Companies' funds, within policy guidelines agreed by the relevant Boards. Derivatives are primarily used for risk hedging purposes or for efficient portfolio management.

More details on how the Group achieves compliance with the requirements (in particular, having the appropriate risk management capability for the invested assets, investments appropriate for the nature and term of the liabilities, use of derivatives for risk mitigation, diversification and concentration risk) are described in section C.2.5.

C.7.2 Sensitivity analysis

As part of the Group's RMF, stress and scenario tests are used extensively to support the assessment of risks and provide an analysis of their financial impact.

The most significant market risk sensitivities arise from interest rate risk, equity and property risks. Sensitivity to credit risk arises from spread risk.

The most significant underwriting risk sensitivities arise from longevity, mortality and lapse risk as insurance and pension scheme 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. This could lead to changes in the assumed asset mix or future bonus rates.

In relation to the acquisition of the Standard Life Assurance businesses, the Group has undertaken additional hedging activity in 2018 to protect the economic value of the acquired business from adverse equity and currency movements. Upon completion, the Group's hedging strategy has been applied to the business acquired.

RISK PROFILE CONTINUED

C.7 ANY OTHER INFORMATION CONTINUED

C.7.2 Sensitivity analysis continued

The table below shows the effect of a change on key assumptions, with all other variables held constant, on PLL, PLAL, SLAL and the Group's Solvency II surplus:

Solvency II Surplus £m	PLL	PLAL	SLAL	PGH Group
Base: 1 January 2019[1]	1,170	384	1,726	3,238
Following a 20% fall in equity markets	1,194	380	1,705	3,237
Following a 15% fall in property values	1,124	380	1,710	3,173
Following a 60bps interest rates rise[2]	1,116	420	1,734	3,227
Following a 80bps interest rates fall[2]	1,236	339	1,715	3,248
Following credit spread widening[3]	1,082	341	1,616	2,997
Following 6% decrease in annuitant mortality rates[4]	1,008	291	1,521	2,779
Following 10% increase in assurance mortality rates	1,079	387	1,705	3,129
Following a 10% change in lapse rates[5]	1,014	222	1,652	2,847

1 Assumes stress occurs on 1 January 2019.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 120bps spread widening across ratings, and included an allowance for defaults/downgrades.
4 Equivalent of six-month increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

For operational risk, stress testing at the 99.5th percentile confidence level is used to determine the operational risk capital requirements, using the PRA approved partial Internal Model.

In addition, as part of the Group's monitoring of the risk appetite position, the impact on the surplus capital position of a 1-in-10 event is stress tested. As of 31 December 2018, the Group and the insurance subsidiaries were able to cover their capital requirements following a 1-in-10 event.

SECTION D

VALUATION FOR SOLVENCY PURPOSES

IN THIS SECTION

SECTION D

VALUATION FOR SOLVENCY PURPOSES

This section covers the valuation of assets (section D.1), technical provisions (section D.2) and other liabilities (section D.3) on the Solvency II balance sheet for the PGH Group, its Phoenix Life insurance subsidiaries and PA(GI). Their valuation is determined in line with the regulations, and is consistent across the Group. There are no material differences between the bases, methods and main assumptions used at Group level for the valuation for solvency purposes of the subsidiarie's assets, technical provisions and other liabilities.

The Balance Sheet QRT S.02.01.02 is included at Appendix 1.1 for the PGH Group, Appendix 2.1 for PLL, Appendix 3.1 for PLAL, Appendix 4.1 for ALAC, and Appendix 5.1 for PA(GI).

Section D.1.2 provides separately for each material class of assets and liabilities (excluding technical provisions which are covered in section D.2), a description of the bases, methods and main assumptions used in their valuation for solvency purposes. An explanation of differences to the IFRS financial statements is also provided. All classes of assets and liabilities presented are consistent to the S.02.01.02 Balance Sheet QRT. The Solvency II value of the assets and liabilities are set out together with a 'statutory accounts value' column.

The recognition and valuation methods used for the completion of the 'statutory accounts value' column are those used by the Group in it's statutory financial statements in accordance with IFRS. Reclassification of line items has taken place, to align disclosures with the Solvency II presentation format and for ease of comparison between the two sets of numbers. This means that the 'statutory accounts value' column will not directly agree to line items on the financial statements of the PGH Group and each insurance subsidiary.

Some of the Group's assets (mainly financial instruments) and liabilities are determined using alternative valuation methods which use non-observable market inputs and follow accepted market practice. Further details are included in section D.4.1.

Following PRA approval during November 2018 the Standard Life insurance subsidiaries are included in the Group Solvency calculation using Method 2 'Deduction and Aggregation'. In accordance with Solvency II rules such entities are included in the Group balance sheet in the line 'Holdings in related undertakings, including participations' as a single amount representing the Group's interest in that entity's Own Funds, rather than on a consolidated line by line basis. Further disclosures on the underlying classes of assets and liabilities of the Standard Life insurance subsidiaries can be found in section D of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS

D.1.1 Introduction

This section covers the valuation of assets and liabilities on the Solvency II balance sheet.

The tables below set out the Solvency II balance sheets and the 'Statutory accounts value columns' for the Group, each Phoenix Life insurance subsidiary and PA(GI). The Standard Life subsidiaries are included in 'holdings in related undertakings, including participations'. Further details are included in note 7.

D.1.1.1 Balance sheet – PGH Group

PGH Group plc

Balance sheet as at 31 December 2018	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Goodwill	1	–	57	(57)
Deferred acquisition costs	2	–	11	(11)
Intangible assets	3	–	1,386	(1,386)
Deferred tax assets	4	101	98	3
Pension benefit surplus	5	255	255	–
Property, plant and equipment held for own use	6	25	28	(3)
Investments (other than assets held for index-linked and unit-linked contracts)	7	**44,745**	**42,696**	**2,049**
Property (other than for own use)		377	377	–
Holdings in related undertakings, including participations		24,890	22,841	2,049
Equities		123	123	–
Bonds		16,006	16,006	–
Collective Investment Undertakings		1,611	1,611	–
Derivatives		1,647	1,647	–
Deposits other than cash equivalents		91	91	–
Assets held for index-linked and unit-linked contracts	8	21,204	21,204	–
Loans and mortgages	9	2,134	2,134	–
Reinsurance recoverables	10	8,078	8,753	(675)
Insurance and intermediaries receivables	11	8	8	–
Reinsurance receivables	11	41	41	–
Receivables (trade, not insurance)	12	612	619	(7)
Own shares (held directly)	13	–	–	–
Cash and cash equivalents	14	482	482	–
Total assets		**77,685**	**77,772**	**(87)**
Technical provisions (BEL plus risk margin)	15	60,861	65,412	(4,551)
Other technical provisions	16	–	875	(875)
Provisions other than technical provisions	17	149	149	–
Pension benefit obligations	18	75	75	–
Deposits from reinsurers	19	340	340	–
Deferred tax liabilities	4	333	381	(48)
Derivatives	20	697	697	–
Debts owed to credit institutions	21	1,429	1,425	4
Financial liabilities other than debts owed to credit institutions	22	1	1	–
Insurance and intermediaries payables	23	558	558	–
Reinsurance payables	23	25	25	–
Payables (trade, not insurance)	24	407	286	121
Subordinated liabilities (in Basic Own Funds)	25	1,929	1,893	36
Total liabilities		**66,804**	**72,117**	**(5,313)**
Excess of assets over liabilities		**10,881**	**5,655**	**5,226**

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.1 Introduction continued
D.1.1.2 Balance sheet – PLL

Phoenix Life Limited

Balance sheet as at 31 December 2018	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Deferred acquisition costs	2	–	20	(20)
Intangible assets	3	–	136	(136)
Deferred tax assets	4	36	36	–
Investments (other than assets held for index-linked and unit-linked contracts)	7	**27,278**	**27,278**	**–**
Property (other than for own use)		346	346	–
Holdings in related undertakings, including participations		8,856	8,856	–
Equities		119	119	–
Bonds		13,613	13,613	–
Collective Investment Undertakings		3,249	3,249	–
Derivatives		1,030	1,030	–
Deposits other than cash equivalents		65	65	–
Assets held for index-linked and unit-linked contracts	8	20,904	20,904	–
Loans and mortgages	9	2,310	2,310	–
Reinsurance recoverables	10	7,165	7,832	(667)
Insurance and intermediaries receivables	11	8	8	–
Reinsurance receivables	11	41	41	–
Receivables (trade, not insurance)	12	522	588	(66)
Cash and cash equivalents	14	210	210	–
Total assets		**58,474**	**59,363**	**(889)**
Technical provisions (BEL plus risk margin)	15	49,799	53,291	(3,492)
Other technical provisions	16	–	577	(577)
Provisions other than technical provisions	17	71	71	–
Deposits from reinsurers	19	340	340	–
Deferred tax liabilities	4	267	54	213
Derivatives	20	367	367	–
Debts owed to credit institutions	21	966	966	–
Financial liabilities other than debts owed to credit institutions	22	1,549	1,549	–
Insurance and intermediaries payables	23	470	470	–
Reinsurance payables	23	16	16	–
Payables (trade, not insurance)	24	196	207	(11)
Subordinated liabilities (not in Basic Own Funds)	25	–	200	(200)
Subordinated liabilities (in Basic Own Funds)	25	217	–	217
Total liabilities		**54,258**	**58,108**	**(3,850)**
Excess of assets over liabilities		**4,216**	**1,255**	**2,961**

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.1 Introduction continued
D.1.1.3 Balance sheet – PLAL

Phoenix Life Assurance Limited

Balance sheet as at 31 December 2018	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Intangible assets	3	–	11	(11)
Deferred tax assets	4	8	8	–
Investments (other than assets held for index-linked and unit-linked contracts)	7	**13,585**	**13,585**	–
Property (other than for own use)		37	37	–
Holdings in related undertakings, including participations		4,524	4,524	–
Equities		110	110	–
Bonds		3,931	3,931	–
Collective Investment Undertakings		4,344	4,344	–
Derivatives		614	614	–
Deposits other than cash equivalents		25	25	–
Assets held for index-linked and unit-linked contracts	8	300	300	–
Loans and mortgages	9	19	19	–
Reinsurance recoverables	10	2,521	2,558	(37)
Insurance and intermediaries receivables	11	1	1	–
Receivables (trade, not insurance)	12	81	124	(43)
Cash and cash equivalents	14	83	83	–
Total assets		**16,598**	**16,689**	**(91)**
Technical provisions (BEL plus risk margin)	15	13,664	14,782	(1,118)
Other technical provisions	16	–	298	(298)
Provisions other than technical provisions	17	10	10	–
Deferred tax liabilities	4	66	6	60
Derivatives	20	327	327	–
Debts owed to credit institutions	21	387	382	5
Insurance and intermediaries payables	23	88	88	–
Reinsurance payables	23	9	9	–
Payables (trade, not insurance)	24	33	33	–
Total liabilities		**14,584**	**15,935**	**(1,351)**
Excess of assets over liabilities		**2,014**	**754**	**1,260**

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.1 Introduction continued
D.1.1.4 Balance sheet assets – ALAC
The only material item on the ALAC balance sheet as at 31 December 2018 is £4 million of collective investments.

D.1.1.5 Balance sheet – PA(GI) (unaudited)

PA (GI) Limited

Balance sheet as at 31 December 2018	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Investments (other than assets held for index-linked and unit-linked contracts)	7	**77**	**77**	**–**
Collective Investment Undertakings		77	77	–
Receivables (trade, not insurance)	12	8	8	–
Total assets		**85**	**85**	**–**
Provisions other than technical provisions	17	17	17	–
Payables (trade, not insurance)	24	1	1	–
Total liabilities		**18**	**18**	**–**
Excess of assets over liabilities		**67**	**67**	**–**

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions

The Group's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset and liability class are set out below. Unless otherwise stated (i.e. where there are differences to the Statutory accounts value column) the valuation methods for IFRS are consistent with the valuation methods of the regulations. Further details on the IFRS valuation principles are set out in the notes to the IFRS consolidated financial statements on pages 121 to 213 of the PGH plc Annual Report and Accounts for the year ended 31 December 2018. There have been no significant changes to the valuation principles set out below during the year.

Note	Balance sheet item	Valuation principles
1	**Goodwill**	For Solvency II goodwill is valued at zero. Under IFRS, goodwill is carried on the balance sheet at initially recognised amounts less accumulated impairment.
2	**Deferred acquisition costs**	For Solvency II deferred acquisition costs are valued at zero unless they can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the deferred acquisition costs in the Group have been assessed as meeting this criteria.
3	**Intangible assets (other than goodwill)**	For Solvency II intangible assets are valued at zero unless the intangible assets can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the Group's intangible assets have been assessed as meeting this criteria and therefore these are valued at zero. Furthermore, any related deferred tax is eliminated for Solvency purposes. For IFRS, intangible assets are measured on the balance sheet at cost less accumulated amortisation and any impairment loss recognised to date. The exception is the intangible asset of PLAL, PVFP (Present Value of Future Profits), which in Solvency II, forms part of the Best Estimate Liabilities, and hence this intangible is valued at zero.
4	**Deferred tax assets/liabilities**	Deferred tax is determined on temporary differences between the fair value of assets and liabilities on the Solvency II balance sheet and their tax base at the valuation date. The tax base is the value as determined under IFRS. This means deferred tax should be provided on temporary differences between the IFRS and the Solvency II balance sheet. All valuation differences between the IFRS and Solvency II balance sheets are identified and deferred tax is calculated, where appropriate, on these differences. 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. Further details on the origin of the deferred tax assets are provided in section D.1.3.
5	**Pension benefit surplus**	PGH has three material defined benefit staff pension schemes, being the Pearl Group Staff Pension Scheme ('Pearl Group Scheme'), the PGL Pension Scheme ('PGL Scheme') and the Abbey Life Staff Pension Scheme ('Abbey Life Scheme'). All are valued in accordance with the regulations consistently with IFRS (i.e. IAS19 valuation basis). The Pearl Group Scheme and the PGL Scheme pension scheme obligations are valued within their respective Holding Companies, PGH2 and PGH1. Effective from 30 June 2017 the Abbey Life Scheme pension obligations are valued in the PeLHL holding company, following the transfer of the Scheme from ALAC. Further details on the IAS19 valuation basis can be found on pages 178 to 189 of the PGH plc Annual Report and Accounts for the year ended 31 December 2018. It should be noted that because PGH1 (the principal employer of the PGL Scheme) is not classified as an insurance holding company under the regulations, it is not subject to a full line by line consolidation in the PGH Group balance sheet. Instead it (and therefore the PGL Scheme IAS 19 valuation amount) is presented as a single line item in 'holdings in related undertakings including participations' at the value of the Group's share of the excess of assets over liabilities. The value included in the 'pension benefit surplus' line for PGH Group reflects surplus arising from the PGH2 Pearl Group Scheme only. The value of the Abbey Life Scheme is included in 'pension benefit obligations'. Further details on all pension schemes can also be found in section D.3.3.
6	**Property, plant and equipment (held for own use)**	Owner-occupied properties are valued at fair value by an accredited independent valuer. Specifically, the Wythall Green site owned by PGMS is ascribed a value equal to the most recent external valuation, which is considered a suitable proxy to the Solvency II fair value. Under IFRS, owner-occupied property is stated at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
7	**Investments (other than assets held for index-linked and unit-linked contracts)**	In line with IFRS, the value of investments (other than assets held for index-linked and unit-linked contracts) is determined using a fair value methodology as follows: • For financial instruments traded in active markets (such as exchange traded securities and derivatives), fair value 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; • Where quoted market prices are not available, quoted market prices for similar assets or liabilities are used to determine the fair value; • Where either of the above are not possible, alternative valuation methods are used to determine fair value. Where discounted cash flow techniques are used, 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; and • Certain financial instruments are determined by valuation techniques using non-observable market inputs based on a combination of independent third party evidence and internally developed models. Further details are included in section D.4.1. Further details on each item within investments are outlined below. **Property (other than for own use)** Commercial investment properties are measured at fair value by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ('RICS') guidelines with expected income and capitalisation rate. Further details are included in section D.4.1. The residential property reversions, an interest in customers' properties that the Group will realise upon their death, are valued using a DCF model based on the Company's proportion of the current open market value of the property, and discounted for the expected lifetime of the policyholder. Further details are included in section D.4.1. Winterthur House is recognised fully within property (other than for own use) for PLL though is split between property, plant and equipment held for own use and property (other than for own use) for PGH Group, as it is partly occupied by Group employees. The Group and Phoenix insurance subsidiaries have no material balance sheet leasing arrangements. Further details are set out in section A.4.2. **Holdings in related undertakings, including participations** Holdings in related undertakings, including participations for PGH Group comprise of the Standard Life Method 2 entities, Collective Investment Undertakings where the Group holds a greater than 20% interest (where the interest is less than 20% it is included within 'Collective Investment Undertakings' line) and entities in the Group or owned by the insurance subsidiaries which are valued using the adjusted equity method, each of which are further explained below. Any investments in Collective Investment Undertakings related to unit-linked contracts are included as Assets held for index-linked and unit-linked contracts. Within the PGH Group there are a number of non-insurance entities (including PGH1 the principal employer of the PGL Scheme) which are treated as other residual related undertakings ('ORRUs'). Quoted market prices are not available for these entities and therefore the option to value using the adjusted equity method is applied. The adjusted equity method requires participations to be valued based on the Group's share of the excess of assets over liabilities of the related undertaking. The excess of assets over liabilities for such participations are valued in accordance with the valuation principles applied by the Group. No alternative valuation methods are used for valuing the ORRUs. The Group's UCITS management company and non-regulated undertakings carrying out financial activities are valued on a local sectoral basis or notional sectoral basis respectively.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles

The Standard Life Assurance subsidiaries are included in the Group Solvency calculation under Method 2 'Deduction and Aggregation'. In accordance with Solvency II rules such entities are included in the Group balance sheet in the line 'Holdings in related undertakings, including participations', rather than on a line by line basis.

Further disclosures on the underlying classes of assets and liabilities of the Standard Life Assurance insurance subsidiaries can be found in the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

The underlying assets and liabilities of the Method 2 entities are valued in accordance with Solvency II rules and valuation principles consistent with the rest of the Group.

The presentation in the statutory accounts column is also amended consistently with the above.

Further details are included in the solo entity SFCRs in section D.1.

The table below summarises the valuation differences for each participation.

Name	Valuation differences between Solvency II and IFRS £m	Explanation
Standard Life Assurance Limited	3,895	Further details regarding the valuation differences are set out in section D.1 (assets and other liabilities) and D.2 (technical provisions) of the SLAL SFCR for the year ended 31 December 2018.
Standard Life International Designated Activity Company	37	Further details regarding the valuation differences are set out in section D.1 (assets), D.2 (technical provisions) and D.3 (other liabilities) of the SLIDAC SFCR for the year ended 31 December 2018..
Standard Life Pension Funds Limited	(2)	Further details regarding the valuation differences are set out in section D.1 and D.3 of the SLPF SFCR for the year ended 31 December 2018..
Standard Life Assets and Employee Services	(25)	This valuation difference largely relates to removal of intangibles which are valued at zero for Solvency II. See note 3.
Group consolidation adjustments applied to the Standard Life Assurance businesses	(1,849)	This difference relates to valuation adjustments in respect of amounts arising on consolidation of the Standard Life Assurance subsidiaries in the Group IFRS financial statements. Principally this relates to the elimination of intangible assets including the Acquired Value in-force and any related deferred tax on such items which are valued at zero for Solvency II.
EBT Own Shares	(7)	Further details are set out in note 13.
Total	**2,049**	

Equities
Equity instruments listed on a recognised stock exchange are valued using quoted market prices. In relation to hedge fund and private equity investments, non-observable third party evidence in the form of net asset valuation statements are usually used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of underlying investments in the fund, indicates this is required. Further details on mark to model techniques are included in section D.4.1.

Bonds
Government bonds are valued using quoted market prices provided by recognised pricing sources. For corporate bonds listed on a recognised stock exchange, quoted market prices are used. For other corporate bonds, these instruments are valued using pricing data received from external pricing providers or in some cases using broker quotes where observable market data is unavailable.

For a small number of investment vehicles and debt securities, standard valuation models (based on a discounted cash flow approach) are used, as by their nature and complexity, they have no external market. Inputs into such models are based on observable market data where applicable.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
		For collateralised securities listed on a recognised stock exchange, quoted market prices are used. For other collateralised securities, these instruments are valued using pricing data received from external pricing providers or in some cases broker quotes where observable market data is unavailable. The majority of the investments are valued using alternative valuation methods and further details are included in section D.4.1. **Collective Investment Undertakings** The Group and insurance subsidiaries receive valuations from investment managers of the underlying funds, based on quoted market prices. Where quoted prices are not available they are estimated using net asset value statements as the basis for the valuation. Where the Group or its insurance subsidiaries holds a greater than 20% interest in an investment fund this interest is recognised within 'holdings in related undertakings, including participations'. Where the interest is less than 20% it is included within 'Collective Investment Undertakings'. Any investments in Collective Investment Undertakings related to unit-linked contracts are included as 'assets held for index-linked and unit-linked contracts'. **Derivative assets** The fair value of OTC assets is estimated using pricing models, with inputs based on market related data at the period end. The fair value of exchange traded securities is based on quoted market prices at the period end provided by recognised pricing services. **Deposits other than cash and cash equivalents** Deposits other than cash and cash equivalents are valued at par and comprise short-term deposits that cannot be used to make payments before a specific maturity date or without any penalty or restriction.
8	**Assets held for index-linked and unit-linked contracts**	Assets held for unit-linked funds are measured based on the fair value of the underlying assets and liabilities (other than technical provisions) held within such funds. Under IFRS, assets and liabilities of unit-linked contracts are separately reported on a line-by-line basis. Under Solvency II, all assets and liabilities backing unit-linked contracts are reported on a single line in 'assets held for index-linked and unit-linked contracts'.
9	**Loan and mortgages**	Loans and mortgages are valued at fair value. The majority of the loans, including ERM loans and CRE loans, are valued using alternative valuation methods. Further details are included in section D.4.1. This includes accrued interest reclassified from 'receivables (trade not insurance)' in both columns.
10	**Reinsurance recoverables**	The value of reinsurance recoverables is dependent on the expected claims and benefits arising under the related reinsured policies. To the extent that the Solvency II valuation of the related technical provisions differs to the valuation under IFRS, the valuation of the related reinsurance recoverable will also be impacted. Further details on the calculation approach for Solvency II reinsurance recoverables are included in section D.2.8.
11	**Insurance and intermediaries receivables Reinsurance receivables**	Given their short-term nature, the carrying amount per the IFRS financial statements is considered to represent the fair value for these assets under Solvency II.
12	**Receivables (trade, not insurance)**	The receivables (trade, not insurance) are valued at fair value. Accrued income and interest in respect of investment assets and liabilities is reclassified accordingly in both columns. No value is ascribed for certain prepayments under Solvency II, where they cannot be sold separately to a third party. In contrast under IFRS, prepayments are recognised as an asset at amount paid less expenses incurred.
13	**Own shares (held directly)**	Own shares reflect shares held by Phoenix Group Employee Benefit Trust ('EBT') and are valued at fair value which is based on the quoted price of PGH shares at each reporting date. Own shares are a deduction to basic Own Funds and therefore do not contribute to Solvency II surplus. Further details are included in section E.1. In contrast under IFRS where the EBT acquires shares in the Company or obtains rights to purchase its shares, the consideration paid is shown as a deduction from owners' equity.
14	**Cash and cash equivalents**	Cash and cash equivalents are valued at par and comprise of cash balances that are usable for all forms of payments without penalty or restriction.
15	**Technical provisions**	Details regarding the valuation of technical provisions are covered in section D.2.
16	**Other technical provisions**	For IFRS, unallocated surplus, which comprises the excess of assets over the policyholder liabilities of the with-profit funds, is included here. This represents amounts which have yet to be allocated to shareholders since the unallocated surplus attributable to policyholders has been included within technical provisions. Unallocated surplus is classed as an accounting liability on the balance sheet. For Solvency II, no liability is held for this, and the shareholder share of future bonuses forms part of Own Funds (which may be subject to Ring Fenced Fund restriction).

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
17	**Provisions (other than technical provisions)**	Consistent with IFRS, a provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.
18	**Pension benefit obligations**	The pension scheme obligations are valued in accordance with the regulations which is consistent with the IFRS treatment (i.e. IAS19 Employee Benefits). See section D.3.3 for further information.
19	**Deposits from reinsurers**	It is the Group's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where such cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'deposits received from reinsurers'. These are valued in line with IFRS, using a discounted cash flow methodology.
20	**Derivatives**	The fair values of OTC derivative liabilities are estimated using pricing models, with inputs based on market-related data at the period end. The fair value of exchange-traded securities is based on quoted market prices at the period end provided by recognised pricing services.
21	**Debts owed to credit institutions continued**	Debts owed to credit institutions include obligations for repayment of collateral received, limited recourse bonds and refinancing loans. **Obligations for repayment of collateral received** are valued at fair value. It is the Group's practice to obtain collateral to mitigate the counterparty risk related to OTC derivatives and certain reinsurance transactions, usually in the form of cash or marketable financial instruments. Where the Group or insurance subsidiaries receive collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised on the balance sheet. **Limited recourse** bonds are securitised on the future surplus emerging from an explicit block of policies. The Solvency II valuation is calculated using a discounted cash flow methodology, using cash flows derived from a model projecting this future surplus, then applying a suitable discount rate to adjust for Own Credit Standing ('OCS'). When valuing liabilities, for Solvency II no adjustment is made to take account of any changes in the OCS since inception. Financial liabilities are therefore valued at initial recognition in accordance with IFRS, but a subsequent adjustment for changes in OCS is not applicable. This creates a difference between subsequent measurements of financial liabilities for Solvency II compared to the measurement according to IFRS. **Refinancing loans**, related to property reversions held in 'property other than own use' are held at fair value for both Solvency II and IFRS on the basis that they incorporate an embedded derivative.
22	**Financial liabilities other than debts owed to credit institutions**	Financial liabilities other than debts owed to credit institutions are valued consistently with IFRS, at fair value. No adjustment to remove change in OCS is required as it is immaterial.
23	**Insurance and intermediaries payables Reinsurance payables**	These are short term in nature and are valued at fair value, i.e. amounts payable on the balance sheet date.
24	**Payables (trade not insurance)**	Deferred income reserves are valued at zero under Solvency II. The difference arising at the Group between IFRS and Solvency II reflects a deferred income liability recognised by the Service Companies in respect of payments received from the Phoenix Life Companies to transfer risks associated with the costs of future regulatory change. Under IFRS this liability is eliminated against a corresponding prepayment in the Phoenix Life Companies, however a related technical provision is recognised by the Phoenix Life Companies and the Group in respect of these risks. As detailed in section D.2.2, the prepayment and technical provision are derecognised under Solvency II. To ensure the risks are appropriately recognised on the consolidated Solvency II balance sheet, the deferred income liability is recognised at its economic value of nil.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
25	**Subordinated liabilities (not in Basic Own Funds) Subordinated liabilities (in Basic Own Funds)**	Under IFRS subordinated debt is valued on an amortised cost basis, taking into account movements in OCS. Under Solvency II, subordinated debt is valued at fair value, excluding changes in OCS. **PGH Group** The subordinated liabilities for the PGH Group are set out in the table below, along with the difference between Solvency II and IFRS. Further details on these instruments are provided in section E.1.

Instrument	Solvency II value £m	Statutory accounts value £m	Difference £m	Explanation
£428m Tier 2 subordinated debt	434	426	8	
US$ Tier 2 bonds	381	390	(9)	The difference is in respect of revaluation from amortised cost to fair value, excluding changes in OCS.
€500m Tier 2 bonds	451	443	8	
Tier 3 notes	446	448	(2)	
PLL subordinated loan notes	217	186	31	The difference is comprised of £17 million in respect of OCS adjustment and £14 million for fair value adjustments recognised upon the Group's acquisition of PLL in 2009. These subordinated loan notes were initially recognised at their fair value and subsequently recognised at amortised cost on an IFRS basis. The difference between the initial fair value and the principal is amortised over the life of the instrument. Under Solvency II, the liability recognised at its current fair value, excluding the impact of change in OCS.
	1,929	**1,893**	**36**	

PLL
Further details regarding the £217 million subordinated loans notes are set out in the table above.

All instruments outlined above are added back as subordinated liabilities to the Basic Own Funds, and further details can be found in section E.1.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.3 Analysis of deferred tax

Deferred tax assets on the Solvency II balance sheet are recognised by reference to expected future taxable profits and valued based on the differences between the carrying value of the asset in the balance sheet and its tax base. Deferred tax assets and liabilities are recognised separately to the extent that the deferred tax asset cannot be offset against corresponding deferred tax liabilities due to legal restrictions. They are comprised as shown in the table below. Deferred tax assets are treated as Tier 3 capital in Basic Own Funds for the PGH Group and its insurance subsidiaries. Further details are set out in section E.1.

The Finance Act 2016 reduced the rates of corporation tax from 20% to 19% in April 2017 and to 17% from April 2020. Consequently a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

D.1.3.1 Analysis of deferred tax

The table below summarises the Solvency II deferred tax assets and liabilities compared to the statutory accounts column, for the year ended 31 December 2018. There are no deferred tax assets and liabilities for ALAC and PA(GI). The Standard Life subsidiaries are not included in the table below because they are not presented in the Group Solvency II balance sheet on a line by line basis, but instead due to their Method 2 treatment are presented as 'holdings in related undertakings including participations'.

Deferred tax assets

Item	PLL	PLAL	Other Group companies	PGH Group
Committed future pension contributions	–	–	18	18
Trade losses carried forward	–	8	5	13
Expense and deferred acquisition costs carried forward	35	8	–	43
Accelerated capital allowances	1	1	5	7
Other temporary differences	16	–	29	45
Offset of IFRS deferred tax asset and liabilities	(16)	(9)	–	(25)
Total Solvency II deferred tax assets	**36**	**8**	**57**	**101**
Valuation adjustments	–	–	(3)	(3)
Other temporary differences	–	–	–	–
Total statutory accounts column deferred tax assets	**36**	**8**	**54**	**98**

Deferred tax liabilities

Item	PLL	PLAL	Other Group companies	PGH Group
Technical provisions	(192)	(35)	–	(227)
Shareholder future bonus transfers	(48)	(25)	–	(73)
IFRS transitional adjustments	(17)	(15)	–	(32)
Unrealised gains on investments	(12)	–	–	(12)
Other temporary differences	(14)	–	–	(14)
Offset of IFRS Deferred tax asset and liabilities	16	9	–	25
Total Solvency II deferred tax liabilities	**(267)**	**(66)**	**–**	**(333)**
Technical provisions	191	35	–	226
Shareholder future bonus transfers	48	25	–	73
Acquired on in-force business	(26)	–	(290)	(316)
Intangible assets	–	–	(30)	(30)
Other temporary differences	–	–	(1)	(1)
Total statutory accounts column deferred tax liabilities	**(54)**	**(6)**	**(321)**	**(381)**

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.3 Analysis of deferred tax continued

D.1.3.1 Analysis of deferred tax continued

The PGH Group had excess tax losses in 2018 of £400 million on which a deferred tax asset of £13 million is recognised in both IFRS and Solvency II.

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

PGH Group deferred tax assets have not been recognised in respect of:

Item	PLL	PLAL	Other Group companies	31 December 2018
Tax losses carried forward	–	–	40	40
Deferred tax assets not recognised on capital losses	–	20	1	21

There are no unrecognised deferred tax liabilities at 31 December 2018 for the PGH Group and its insurance subsidiaries.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS

This section provides separately for each LoB the value of technical provisions, including the amount of the Best Estimate Liability ('BEL') and the risk margin, as well as a description of the bases, methods and main assumptions used in the valuation of technical provisions.

As outlined in section A.1.3 the LoBs relevant to each insurance subsidiary are set out in the table below. The table below excludes ALAC and PA(GI) as they did not have any technical provisions as at 31 December 2018. The Standard Life insurance subsidiaries do not contribute to the value of the Group's technical provisions given their recognition in the Group solvency calculation under Method 2, Deduction and Aggregation. Under this Method, the contribution to the Group excess of assets over liabilities is shown as a single item within the 'Holdings in related undertaking, including participations' line. Further details regarding the valuation of technical provisions for the Standard Life insurance subsidiaries (SLAL, SLIDAC and SLPF) can be found in Section D.2 of their SFCRs for the year ended 31 December 2018.

	PLL	PLAL
Insurance with-profit participation	✓	✓
Index-linked and unit-linked insurance	✓	✓
Health insurance	✓	–
Other life insurance	✓	✓

This section also includes a quantitative and qualitative explanation of material differences between the bases, methods and main assumptions used by the Group for the valuation of technical provisions for solvency purposes and those used for their valuation in IFRS.

D.2.1 Introduction

The technical provisions detailed in this section are inclusive of the Matching Adjustment and TMTP.

The Matching Adjustment is applied to the risk-free curve used for discounting liabilities in the Matching Adjustment portfolio's only and has the effect of reducing technical provisions. The Group has PRA approval to apply a Matching Adjustment to all liabilities in the PLL and PLAL Matching Adjustment portfolios. The liabilities in the PLL Matching Adjustment portfolio also include those eligible liabilities transferred from ALAC following the Part VII transfer on 31 December 2018.

The Group also has approval to apply the TMTP to liabilities in PLL and PLAL entities which allows firms to apply a transitional deduction to their technical provisions. The TMTP allows firms to apply a transitional deduction to their technical provisions. Transitional measures are aimed at providing a smooth transition between the technical provisions under the previous Solvency I regulatory regime and the technical provisions under the Solvency II regulatory regime in order to enhance stability in the insurance sector. Solvency I technical provisions were determined using the ICA basis.

The initial calculation was as at 1 January 2016, but recalculation is expected every two years or sooner if material changes in the risk profile of the business have occurred. The last full recalculation of the PLL and PLAL TMTP was performed as at 31 December 2017 following approval by the PRA. No recalculation has been performed as at 31 December 2018. The TMTP reported in this valuation allows for three years run-off.

Further details on the application of the Matching Adjustment and TMTP can be found in section D.2.7.1.

For all Phoenix Life business, no allowance is currently made for the Volatility Adjustment or transitional measure on interest rates.

Regulatory approval has been received from the PRA for the application of the Volatility Adjustment in SLAL.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical Provisions by Line of Business

This section provides technical provisions split by Solvency II LoB.

The tables below summarise the Group and Phoenix Life insurance subsidiary technical provisions at 31 December 2018 by Solvency II LoB, including the amount of BEL and risk margin. The TMTP as at 31 December 2018 (see section D.2.7.2) is also shown separately where applicable. PA(GI) and ALAC held no technical provisions as at 31 December 2018, and therefore no disclosures are required for these entities.

During 2017, the PRA issued guidance that the unit fund part of unit linked liabilities should be reported as 'technical provisions as a whole'. This was following differences in treatment by firms, with some firms presenting as 'technical provisions as a whole' or as part of 'BEL'. As a result of this feedback, the Group and its insurance subsidiaries now report the unit fund part of its unit linked liabilities as 'technical provisions as a whole' as opposed to part of 'BEL'.

Table D.2.2.1a Technical provisions by Line of Business – PGH Group

As previously noted the technical provisions for the Standard Life insurance subsidiaries are not included in the table below due to their Method 2 treatment and their value being shown as a single line item within 'holdings in related undertakings, including participations.'

31 December 2018 Technical provisions by Line of Business	**Insurance with-profit participation £m**	**Index-linked and unit-linked insurance £m**	**Health insurance £m**	**Other life insurance £m**	**Accepted reinsurance £m**	**Total technical provisions £m**
Best Estimate Liabilities	20,660	(513)	126	14,693	287	**35,253**
Risk margin	507	73	9	795	10	**1,394**
Technical provisions as a whole	–	26,570	–	–	–	**26,570**
Gross technical provisions pre TMTP	**21,167**	**26,130**	**135**	**15,488**	**297**	**63,217**
TMTP adjustment	(1,015)	(135)	(10)	(1,174)	(22)	**(2,356)**
Gross technical provisions post TMTP	**20,152**	**25,995**	**125**	**14,314**	**275**	**60,861**

Table D.2.2.2a Technical provisions by Line of Business – PLL

31 December 2018 Technical provisions by Line of Business	**Insurance with-profit participation £m**	**Index-linked and unit-linked insurance £m**	**Health insurance £m**	**Other life insurance £m**	**Accepted reinsurance £m**	**Total technical provisions £m**
Best Estimate Liabilities	11,355	(169)	124	12,929	(59)	**24,180**
Risk margin	204	69	9	674	9	**965**
Technical provisions as a whole	–	24,427	–	–	1,842	**26,269**
Gross technical provisions pre TMTP	**11,559**	**24,327**	**133**	**13,603**	**1,792**	**51,414**
TMTP adjustment	(430)	(132)	(10)	(1,026)	(17)	**(1,615)**
Gross technical provisions post TMTP	**11,129**	**24,195**	**123**	**12,577**	**1,775**	**49,799**

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical Provisions by Line of Business continued

Table D.2.2.3a Technical provisions by Line of Business – PLAL

31 December 2018 Technical provisions by Line of Business	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	Accepted reinsurance £m	Total technical provisions £m
Best Estimate Liabilities	9,304	40	2,734	138	**12,217**
Risk margin	304	4	120	1	**429**
Technical provisions as a whole	–	1,758	–	–	**1,758**
Gross technical provisions pre TMTP	**9,608**	**1,802**	**2,855**	**139**	**14,403**
TMTP adjustment	(586)	(2)	(148)	(4)	**(740)**
Gross technical provisions post TMTP	**9,022**	**1,800**	**2,707**	**135**	**13,664**

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 Technical Provisions by Line of Business continued

Table D.2.2.1b Material differences between IFRS and Solvency II technical provisions – PGH Group

The table below outlines separately for each LoB, the material differences between the bases, methods and main assumptions used for Solvency II and those used for IFRS.

PGH Group

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Health insurance £m	Other life insurance £m	Life reinsurance £m	Total technical provisions £m
IFRS technical provisions – gross		**22,394**	**26,669**	**124**	**16,070**	**349**	**65,606**
Longevity derivative assets and liabilities		–	–	–	(128)	–	**(128)**
Loan held at fair value		–	–	–	(66)	–	**(66)**
Statutory accounts value technical provisions – gross		**22,394**	**26,669**	**124**	**15,876**	**349**	**65,412**
IFRS reinsurers' share		(4)	(5,241)	(71)	(3,329)	(197)	(8,842)
Longevity derivative assets and liabilities		–	–	–	76	–	76
Debt held at fair value		–	–	–	13	–	13
Statutory accounts value reinsurance recoverable[2]		**(4)**	**(5,241)**	**(71)**	**(3,240)**	**(197)**	**(8,753)**
IFRS technical provisions – net		**22,390**	**21,428**	**53**	**12,636**	**152**	**56,659**
Change to discount curve	1	258	8	1	87	2	**356**
Change in restriction for negative sterling reserves	2	(48)	(561)	–	–	–	**(609)**
Matching Adjustment on non-Matching Adjustment funds	3	–	–	–	17	–	**17**
Demographic margin	4	–	–	–	(525)	–	**(525)**
Annuity profit margin	5	132	–	–	20	1	**153**
Policyholders' share of estate	6	(2,283)	–	–	(48)	–	**(2,331)**
Prepayments	7	(95)	–	–	(14)	–	**(109)**
Other	8	302	(81)	(1)	(47)	(39)	**134**
Solvency II Best Estimate Liabilities/TP as a whole – net		**20,656**	**20,794**	**53**	**12,126**	**116**	**53,745**
Add risk margin		507	73	9	795	10	1,394
Deduct transitional adjustments		(1,015)	(135)	(10)	(1,174)	(22)	(2,356)
Solvency II technical provisions – net		**20,148**	**20,732**	**52**	**11,747**	**104**	**52,783**
Solvency II reinsurance		4	5,263	73	2,567	171	8,078
Solvency II technical provisions – gross		**20,152**	**25,995**	**125**	**14,314**	**275**	**60,861**

1 The statutory accounts value of gross technical provisions of £65,412 million is different to the IFRS value of £205,674 million reported in the PGH plc Annual Report and Accounts for year ended 31 December 2018, due to presentational differences of £140,068 million relating to the treatment of the Standard Life insurance subsidiaries which are included in the Solvency II balance sheet as a single line item as 'participations' but for IFRS are consolidated on a line by line basis. In addition, there is a further £194 million for presentational differences in respect of longevity arrangements which PLL has in place with corporate pension schemes. These arrangements are recognised as derivative financial instruments under IFRS whereas under Solvency II, they are recognised within technical provisions, and therefore the IFRS balances have been presented within technical provisions in the statutory accounts value column. PLL has also entered into a transaction under which it has accepted reinsurance on a portfolio of single and regular premium life insurance policies and retroceded the majority of insurance risk. Again, this is classified as a financial instrument under IFRS but recognised within technical provisions on a Solvency II basis. These arrangements have also been reclassified. The difference of £194 million in relation to the longevity arrangements is as a result of the reclassification of derivative assets and liabilities of £128 million and £66 million for loan held at fair value being the amount due from the cedant.

2 The statutory accounts value of reinsurance recoverables of £8,753 million is also different to the IFRS value of £12,981 million reported in the PGH plc Annual Report and Accounts for year ended 31 December 2018, as a result of the transactions detailed in note 1. The difference of £4,228 million is as a result of £4,140 million for the Standard Life Insurance subsidiaries, reclassification of derivative assets and liabilities of £76 million and debt held at fair value of £13 million being the amount due to the retrocessionaire.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical Provisions by Line of Business continued

Table D.2.2.2b Material differences between IFRS and Solvency II technical provisions – PLL

Phoenix Life Limited

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Health insurance £m	Other life insurance £m	Life reinsurance £m	Total technical provisions £m
IFRS technical provisions-gross[3]		**12,434**	**24,857**	**123**	**14,227**	**1,844**	**53,485**
Longevity derivative assets and liabilities		–	–	–	(128)	–	**(128)**
Loan held at fair value		–	–	–	(66)	–	**(66)**
Statutory accounts value technical provisions – gross		**12,434**	**24,857**	**123**	**14,033**	**1,844**	**53,291**
IFRS reinsurers' share		(118)	(5,264)	(71)	(2,270)	(198)	**(7,921)**
Longevity derivative assets and liabilities		–	–	–	76	–	**76**
Debt held at fair value		–	–	–	13	–	**13**
Statutory accounts value reinsurance recoverable[4]		(118)	(5,264)	(71)	(2,181)	(198)	(7,832)
Statutory accounts value technical provisions – net		**12,316**	**19,593**	**52**	**11,851**	**1,646**	**45,459**
Change to discount curve	1	110	9	1	83	–	**202**
Change in restriction for negative sterling reserves	2	(48)	(525)	–	–	–	**(573)**
Matching Adjustment on non-Matching Adjustment funds	3	–	–	–	7	–	**7**
Demographic margin	4	–	–	–	(442)	–	**(442)**
Annuity profit margin	5	94	–	–	20	–	**114**
Policyholders' share of estate	6	(1,462)	–	–	(48)	–	**(1,510)**
Prepayments	7	(52)	–	–	(14)	–	**(66)**
Other	8	279	(107)	–	(46)	(34)	**94**
Solvency II Best Estimate Liabilities/TP as a whole – net		**11,237**	**18,970**	**53**	**11,412**	**1,612**	**43,284**
Add risk margin		204	69	9	674	9	965
Deduct transitional adjustments		(430)	(132)	(10)	(1,026)	(17)	(1,615)
Solvency II technical provisions – net		**11,011**	**18,907**	**52**	**11,060**	**1,604**	**42,634**
Solvency II reinsurance		118	5,288	71	1,517	171	7,165
Solvency II technical provisions – gross		**11,129**	**24,195**	**123**	**12,577**	**1,775**	**49,799**

3 The statutory accounts value of gross technical provisions of £53,291 million is different to the IFRS value of £53,485 million reported in the PLL statutory accounts for the year ended 31 December 2018, due to presentational differences in respect of longevity arrangements which PLL has in place with corporate pension schemes. These arrangements are recognised as derivative financial instruments under IFRS whereas under Solvency II, they are recognised within technical provisions, and therefore the IFRS balances have been presented within technical provisions in the statutory accounts value column. PLL has also entered into a transaction under which it has accepted reinsurance on a portfolio of single and regular premium life insurance policies and retroceded the majority of insurance risk. Again, this is classified as a financial instrument under IFRS but recognised within technical provisions on a Solvency II basis. These arrangements have also been reclassified. The difference of £194 million is as a result of the reclassification of derivative assets and liabilities of £128 million and £66 million for loan held at fair value being the amount due from the cedant.

4 The statutory accounts value of reinsurance recoverables of £7,832 million is also different to the IFRS value of £7,920 million reported in the PLL statutory accounts for year ended 31 December 2018, as a result of the transactions detailed in note 3 above. The difference of £88 million is as a result of the reclassification of derivative assets and liabilities of £76 million and debt held at fair value of £13 million being the amount due to the retrocessionaire.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical Provisions by Line of Business continued

Table D.2.2.3b Material differences between IFRS and Solvency II technical provisions – PLAL

Phoenix Life Assurance Limited

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	Life reinsurance £m	Total technical provisions £m
Statutory accounts value/IFRS technical provisions – gross		**9,960**	**1,813**	**2,871**	**138**	**14,782**
IFRS reinsurance		–	(1,497)	(1,061)	–	**(2,558)**
Statutory accounts value/IFRS technical provisions – net		**9,960**	**316**	**1,810**	**138**	**12,224**
Change to discount curve	1	149	(1)	5	1	**154**
Change in restriction for negative sterling reserves	2	–	(36)	–	–	**(36)**
Matching Adjustment on non-Matching Adjustment funds	3	–	–	11	–	**11**
Demographic margin	4	–	–	(83)	–	**(83)**
Annuity profit margin	5	38	–	–	1	**39**
Policyholders' share of estate	6	(821)	–	–	–	**(821)**
Prepayments	7	(42)	–	–	–	**(42)**
Other	8	20	24	(34)	(2)	**8**
Solvency II Best Estimate Liabilities/ TP as a whole – net		**9,304**	**303**	**1,709**	**138**	**11,454**
Add risk margin		304	4	120	1	**429**
Deduct transitional adjustments		(586)	(2)	(148)	(4)	**(740)**
Solvency II technical provisions – net		**9,022**	**305**	**1,681**	**135**	**11,143**
Solvency II reinsurance		–	1,495	1,026	–	**2,521**
Solvency II technical provisions – gross		**9,022**	**1,800**	**2,707**	**135**	**13,664**

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical Provisions by Line of Business continued

An explanation of the material changes between the IFRS valuation for technical provisions and that used for Solvency II is included below:

Note	Item	Description
1	**Change to discount curve**	Liabilities are valued using a discount rate derived from the EIOPA swap curve less a credit risk adjustment of 10bps under Solvency II. For IFRS they are valued using a discount rate from the EIOPA swap curve plus an illiquidity adjustment of 10bps.
2	**Change in restriction for negative sterling reserves**	The term 'sterling reserves' represents reserves set aside to cover future cash flow obligations on unit-linked policies, over and above the value of units held. For Solvency II, negative sterling reserves are allowed as a reduction to technical provisions. For IFRS, negative sterling reserves are disallowed and set to zero.
3	**Matching Adjustment on non-Matching Adjustment funds**	In addition to the adjustment in the Matching Adjustment portfolio, an adjustment is made to the IFRS technical provisions in the non-Matching Adjustment portfolio (non-profit business only) for liabilities backed by Solvency II Matching Adjustment eligible assets, representing an estimate of the allowance for illiquidity expected to be earned on such assets. This adjustment is not made under Solvency II.
4	**Demographic margin**	A margin for demographic risk is included within the IFRS technical provisions. This item is based on a percentage of undiversified demographic risk capital, relating to mortality, longevity and persistency. Solvency II does not require this margin to be held over and above best estimate.
5	**Annuity profit margin**	Annuity profit margin includes future profits expected to be recognised when deferred annuities vest from the with-profit funds into the Matching Adjustment portfolio. Under Solvency II, there is no allowance for the reserving of the profit margin. For IFRS this profit margin is included within unallocated surplus.
6	**Policyholders' share of estate**	The proportion of the with-profit estate which is expected ultimately to be distributed to policyholders is included within technical provisions on the IFRS basis. For Solvency II, it is recognised as surplus funds (being accumulated profits which have not been made available for distribution to policyholders or other beneficiaries) and is not recognised within technical provisions but instead as an item of Own Funds. Further details are included in section E.1.
7	**Prepayments**	Under IFRS, the Life Companies recognise a prepayment relating to payment for transfer of certain risks to Service Companies. An offsetting amount is also held within technical provisions to recognise the future charge that will be incurred as the prepayment is released. For Solvency II, the prepayment cannot be recognised, as it is considered to not have any economic value, and therefore the liability held within technical provisions is released.
8	**Other**	The 'other' line includes the impact of reallocation of reserves in the with-profit funds between the two bases.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.3 Bases, methodology and main assumptions used for Best Estimate Liability

Technical provisions represent the value of policyholder obligations, if these were to be transferred to a third party at the valuation date. The Group's approach to valuing all actuarial liabilities for its Phoenix Life insurance subsidiaries is to use BEL plus risk margin. The alternative 'Technical Provisions as a whole' approach to valuing these liabilities is not used. However for presentational purposes only (for further details see section 2.2), the unit-fund component of unit-linked BEL is presented as technical provisions as a whole in the tables in section D.2.2 and in the S.12.01.02 technical provisions QRT presented in Appendix 2.3 for PLL and Appendix 3.3 for PLAL.

Sections D.2.3 to D.2.10 set out in detail the bases, methodology and main assumptions used to derive the BEL. Risk margin methodology is covered in section D.2.11.

All data used to calculate technical provisions is assessed for appropriateness, completeness and accuracy. Where there are any material weaknesses, limitations or errors associated with data, these are identified in control and validation reports together with any remedial adjustments made.

D.2.3.1 Best Estimate Liability

BEL is calculated gross, without deduction for amounts recoverable on reinsurance contracts. Reinsurance recoverables are valued separately, recognised as a reinsurance asset and calculated in the same manner as the BEL (see section D.2.8 for further details).

All assumptions are updated to reflect current economic conditions and demographic experience. Material changes in the relevant assumptions made in the calculation of technical provisions are covered in section D.2.5.

For the majority of policies which have rider contracts (an additional provision attached to an insurance policy), the rider is separated from the main contract for valuation purposes. For example, a term assurance rider contract attached to a unit-linked pension policy is treated as a separate stand-alone term assurance contract. This ensures appropriate assumptions are used to value the rider contract.

The following section details the methodology and key assumptions used to calculate the BEL.

D.2.3.2 Overview of Methodology

A cash flow projection model is used to calculate BEL. This projects cash inflows and outflows required to meet the Group's obligations to policyholders over the lifetime of the policy, taking into account the undertaking's regulatory duty to treat its customers fairly.

The projection of future cash flows is performed using realistic assumptions regarding future experience. The key relevant assumptions include mortality, longevity, lapse rates and option take-up rates with allowance for any expected trends. An allowance is also made for future expenses.

The model takes account of the time value of money through discounting at an appropriate risk-free rate (see section D.2.3.3 below). The assessment of the expected cash flows underlying the BEL takes into account any taxation payments which are charged to policyholders, or which would be required to be made to settle the insurance obligations.

In certain specific circumstances, the best estimate may be negative (e.g. for some protection business where the value of future premiums exceeds the value of future claims and expenses). A negative BEL is permitted under the regulations.

D.2.3.3 Discount rates

For the purpose of calculating the Solvency II technical provisions, nominal discount rates, based on swap rates, prescribed by EIOPA are used. These rates vary by currency of liabilities. The vast majority of the Group's insurance obligations are denominated in sterling. The Group's main non-sterling currency exposure relates to euro denominated liabilities.

An adjustment (also specified by EIOPA) is made to the swap curve for credit risk. At 31 December 2018, the sterling credit risk adjustment was minus 10bps, and for euros minus 10bps at each duration. The discount rates used to value liabilities in the Matching portfolios are higher as they also include allowance for the Matching Adjustment (see section D.2.7.1).

D.2.3.4 Tax assumptions

Tax assumptions have been updated as a result of the 2016 Finance Bill reducing tax rates from 1 April 2017.

From 1 April 2017 the mainstream tax rate dropped to 19% and from 1 April 2020 it will drop to 17%.

D.2.3.5 Contract boundaries

Under the regulations the liability cash flows that need to be considered within the BEL are those that fall within the 'contract boundary'. Depending on the features of the contract type, the contract boundary can vary (e.g. the contract boundary may be the original maturity date, the next policy anniversary or the valuation date).

For substantially all products, the contract boundary used in the calculation of BEL is the original contractual maturity term. The boundary used is based on a product level assessment which has been performed against the regulations.

D.2.3.6 Grouping of liability data

PLL and PLAL policies are grouped into model points to improve computational efficiency. Groups are selected so that the model points appropriately allow for the risk characteristics of the individual policies and do not distort the valuation of BEL.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.4 Calculation

The following sub-sections outline how each type of BEL are valued.

D.2.4.1 Insurance with-profit participation

The BEL is typically calculated as the sum of:

- asset shares – the value (as at the valuation date) of the underlying policy cash flows accumulated at the investment returns earned historically on assets backing those policies;
- the market-consistent cost of guarantees and smoothing as these may give rise to claim payments greater than the asset shares; and
- other with-profit future policyholder related liabilities, which includes future discretionary benefits and any remaining options and guarantees.

Cost of option and guarantees

A range of options and guarantees exist. As the cost of an option or guarantee will vary depending on future economic conditions, stochastic methods are used to value the majority of them (see section D.2.6 for further details) and these are included in the BEL.

Investment mix of asset shares

As the value of options and guarantees can depend on the projected asset share, the stochastic model requires assumptions about the current and future mix of investments held within the asset shares. These assumptions reflect the asset share pools as described in each with-profit fund's Principles and Practices of Financial Management ('PPFM').

The change to the asset mix of these asset share pools varies over time as described in the PPFM; certain funds will retain a static mix based on the assets backing asset shares at the valuation date, others will vary from an initial mix to a long-term strategic mix.

D.2.4.2 Other life insurance (including health)

The BEL for the annuity business is the present value of future annuity payments and associated policy administration expenses less any future premiums payable. For non-pension annuities, the annuity payments may include policyholder tax on the income element of any payments.

For other business, BEL represents a realistic assessment of the present value of projected claims payments, plus expenses less premium income.

D.2.4.3 Index-linked and unit-linked business

The BEL for unit-linked business is based on a realistic assessment of the present value of projected claim payments plus expenses, less the present value of future premiums paid.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.5 Demographic and expense assumptions

Actuarial assumptions have been reviewed throughout the year, the most material change being the move to latest version of the CMI projections model (CMI_2017) which reflects a reduction in longevity improvements and is in line with recent experience. Further details are set out below.

All demographic and expense assumptions are determined on a best estimate basis (i.e. they include no allowance for prudence). Any changes to external factors are also taken into account when determining the best estimate assumptions.

Assumptions are set in accordance with the regulations. In particular, they:

- are applicable to homogenous risk groups and LoBs within each insurance subsidiary;
- are based on knowledge of the business and practices for managing the business; and
- ensure appropriate allowance for anticipated trends or future changes in the Group and its insurance subsidiaries and portfolio specific factors as well as legal, technological, social, economic or environmental factors.

Typically, assumptions are reviewed annually; however for less material assumptions the updates may be less frequent.

The assumption setting process involves analysing experience data from the last three to five years. This ensures data is detailed enough to allow credible statistical analysis to be performed and emerging trends to be identified.

For example, in order to set a particular assumption for a particular group of policies, the annual percentage of policies subject to the relevant decrement (for example, lapses, death) over the last five years is typically considered. The actual rates observed over the last five years are then compared to the best estimate assumption being used to value the BEL. Where the best estimate assumption is materially out of line with actual experience, changes to the best estimate assumption are considered.

Validations are performed to ensure the experience data is accurate, relevant and credible. Other industry data (e.g. industry trend data) may also be used to supplement the Group's experience data, where relevant and credible.

Expert judgement is applied to assess the impact on the proposed assumption of one-off events and likely future policyholder behaviour. It is also used where there is insufficient credible experience/other data to set the assumption.

Key best estimate demographic assumptions are:

1) Mortality rates (using base table and future improvement rates);
2) Lapse rates;
3) Early and late retirement rates; and
4) Option take-up rates (e.g. early retirement options, Guaranteed Annuity Options ('GAO').

Other less material best estimate assumptions include morbidity and conversion from premium paying to paid-up status.

D.2.5.1 Mortality

Base annuitant mortality

The base table mortality assumption review for annuitants is based on individual insurance subsidiary mortality experience primarily over a five-year period.

Criteria used to subdivide fund level data into homogenous risk groups are gender and ex-entity (i.e. the original company that sold the policy to the policyholder). However for impaired life annuities, underwriting class is also used.

The mortality tables currently in use are PCXA00 and RXV00 as these tables are most representative of the underlying company's experience. A base mortality multiplier is then applied to the assumption so that the assumptions align to the underlying experience.

PCXA00 and RXV00 are examples of standard mortality tables used by Life Companies to value technical provisions. Adjustments are made to these tables to reflect mortality improvements from the date they were published to the current valuation date.

A separate allowance is made for future mortality improvements applicable after the valuation date, which are detailed below.

Pre-vesting mortality

Pre-vesting mortality assumptions apply to products such as term assurances and endowments.

The assumption review is based on mortality experience primarily over a five-year period. Criteria used to subdivide fund level data are gender, product group, smoker status and ex-entity.

A base mortality multiplier that varies by gender is applied to a standard mortality table. Adjustments may be made to the mortality table to take account of changes in mortality improvements since the table was published.

Base multiplier and mortality assumptions are selected that are in line with the underlying experience data. In some cases, age specific percentages are used where they better match experience.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.5 Demographic and expense assumptions continued
D.2.5.1 Mortality continued
The main standard mortality tables currently in use are A196770, AX80, AX92, TX92, AXC00, PCXA00, ELT14, ELT15 and TX00.

Additionally, company specific tables are used to value term policies and certain individual policies which include total and permanent disability benefits.

Future improvement in mortality rates
For immediate annuities, deferred annuities or products with GAO's/Guaranteed Minimum Pension ('GMP') guarantees and for certain whole of life and term assurance business, a separate allowance for future improvements in mortality rates is made when calculating technical provisions.

For annuity business, the future improvement assumption is a material assumption and it is set using an industry model which firstly fits a model to England and Wales historic population data. Expert judgement is then used to make assumptions regarding an appropriate long-term rate of improvement assumption and the rate of convergence from the recent historic rates to this long term rate. The published projection model currently in use is the CMI_2017 projections model which was published in March 2018 and uses historic data up to 2017.

For whole of life and term assurance business, the future improvement assumption is less material and a single rate of future improvement assumption is used.

D.2.5.2 Lapse rates
The assumption review is based on lapse experience primarily over a five-year period. Criteria used to subdivide fund level data are product type and premium payment status (i.e. regular premium or single premium/paid up). Where experience data is insufficient to perform a credible analysis, the experience from similar products may be aggregated. The analysis is carried out by splitting policies into homogeneous risk groups and identifying an assumption for the group as a whole.

D.2.5.3 Early and late retirement rates
The assumption review for early and late retirement rates is based on experience primarily over a five-year period. The criteria used to subdivide fund level data are product type and ex-entity. Late retirement rates are only modelled for those products where the assumption has a material impact on BEL.

In setting the assumptions, allowance is made for known or anticipated trends (e.g. changes in early and late retirement rates as a result of low interest rate environment or changes in pension's legislation from the Pensions' Freedoms Act).

D.2.5.4 Option take-up rates
The current best estimate assumptions for GAO take-up rates are based on experience data, with added weight given to the most recent experience particularly since the 2014 Budget announcement where the requirement to take policy benefits in the form of an annuity was removed in the Pensions Freedoms Act. Given the significance of this change, it will take some time for sufficient experience to build-up to produce a stable take-up rate assumption.

GAO liabilities are valued using a stochastic model. The take-up rate varies depending on the projected interest rate at policy maturity date in each stochastic scenario. An upper and lower bound apply to the take-up rate based on the degree to which the guarantee is in the money (i.e. by how much the guaranteed annuity rate exceeds the current market annuity rate).

The assumed GAO take-up rates across the different funds currently lie between 50% and 80%.

D.2.5.5 Expense assumptions
Future expense assumptions are set on a going concern basis, which assumes that new vesting annuity business and Sun Life protection business will be written in future, but that other product lines are closed to new business.

The future expense assumptions include:

- MSA fees payable to the Group's Service Companies – These MSAs typically specify a charge for each policy type/fund together with associated increase rates (e.g. RPI + 1%);
- Direct and Project costs – Within the expense assumptions, allowance is made for direct costs (i.e. costs directly attributed to the business) and some project costs. Any project costs not allowed for in expense assumptions are held as an actuarial provision within the overall calculation of BEL;
- Investment management expenses – These fees may be explicit inputs to the valuation models, or in some cases they are applied via reductions to the investment returns used to calculate BEL. For with-profit funds investment expenses are set by considering the underlying asset mix of the asset shares and those assets backing other liabilities and Own Funds;
- Acquisition expenses – e.g. commission relating to future premium payments; and
- Overhead expenses – These are allocated in a realistic and objective manner and on a consistent basis over time to the parts of the best estimate to which they relate.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.6 Stochastic Model
D.2.6.1 Economic Scenario Generators
An Economic Scenario Generator ('ESG') developed by a third party supplier has been used to support the stochastic valuation of all material options and guarantees in the with-profit funds. A stochastic methodology is required for options and guarantees due to their potential volatility and asymmetric behaviour under different sets of future economic scenarios. The stochastic methodology involves valuing the options and guarantees under 1,000 different future economic scenarios and then averaging over all scenarios. The central scenario in the ESG is equal to the single deterministic scenario used to value all non-profit and unit-linked business.

The ESG generates projected asset returns consistent with asset prices observed in financial markets and assumes no arbitrage opportunities exist. The calibration of the parameters and scenarios is consistent with the relevant risk-free interest rate term structure used to calculate the BEL provided by EIOPA. Where possible the ESG has been calibrated to assets from deep, liquid and transparent markets which are appropriate to the nature of the funds' options and guarantees.

D.2.6.2 Management actions
The methods and techniques for the estimation of future cash flows take account of potential future actions taken by management. The management actions allowed for are determined and justified in accordance with the regulations.

Management actions in this context are mainly relevant to with-profit liabilities and, in the calculation of technical provisions, primarily relate to discretion over the amount of annual and final bonuses. In each ESG scenario, the level of annual future reversionary bonus applied to benefits is determined dynamically, and is set at a level such that the final bonus is targeted at a specified percentage of the guaranteed benefit.

Some reversionary bonuses are guaranteed at a specified minimum. Where this is the case the model uses the dynamic methodology as above, but applies a floor of the guaranteed minimum.

The final bonus rates are typically assumed to be adjusted in each scenario so as to correspond to the rate that can be covered by the difference between the asset share and the guaranteed benefit, including any reversionary bonuses. The overall final bonus is subject to a minimum of zero.

D.2.6.3 Policyholder actions
The impact of policyholder actions is considered primarily in relation to GAO take-up rates, as these take-up rates are expected to be correlated with the financial benefit gained from the option, which is in turn highly correlated with the level of interest rates.

The central GAO take-up rate assumptions in the stochastic models are supported by the analysis of historical data. This analysis takes into account the following:

- how beneficial exercise of the option was and will be to policyholders under circumstances at the time of exercising the option;
- the influence of past and future economic conditions;
- the impact of past and future management actions; and
- any other circumstances that are likely to have influenced the decisions on whether to exercise the option (e.g. changes in legislation such as Pension Freedom legislation introduced in April 2015).

D.2.7 Solvency II Long-term Guarantee and Transitional Measures
Regulatory approval has been received from the PRA for the application of:

- Matching Adjustment to liabilities in the Matching Adjustment portfolios within PLL and PLAL; and
- the TMTP which is applied to all liabilities within PLL and PLAL.

D.2.7.1 Matching Adjustment
The application of the Matching Adjustment allows insurers to use a (typically) higher discount rate when valuing liabilities that meet strict eligibility criteria, with the effect of increasing Own Funds and reducing the SCR. The assets and liabilities in each of the Matching Adjustment portfolios meet the Matching Adjustment eligibility criteria as set out in the regulations.

The Matching Adjustment is based on the expected yield from eligible assets held to back eligible liabilities, less a margin for defaults and downgrades. It is applied as a flat increase to the Solvency II basic risk-free curve used to discount liabilities.

The calculation of the Matching Adjustment requires EIOPA specified assumptions for the basic risk free curve and fundamental spreads. These assumptions are combined with asset and liability cash flows to generate the Matching Adjustment for each currency of liabilities.

The liabilities in the PLL Matching Adjustment portfolio consist of sterling denominated non-profit immediate and deferred annuities. There is also a relatively small block of non-profit euro denominated immediate annuities. The immediate and deferred annuities provide policyholders with a mixture of level, fixed escalation and inflation linked benefits.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.7 Solvency II Long-term Guarantee and Transitional Measures continued
D.2.7.1 Matching Adjustment continued

Liabilities in the PLAL Matching Adjustment portfolio consist of sterling denominated non-profit immediate annuities from which policyholders receive a mixture of level, fixed escalation and inflation linked benefits.

At the current valuation date, assets are held to back liabilities in the Matching Adjustment portfolios, these include: fixed and index-linked government bonds, supranational bonds, corporate bonds, interest rate swaps, gilt total return swaps and cash. For PLL Matching Portfolio CRE Loans and ERM notes issued by ERM SPVs are also held to back liabilities.

The impact of reducing the Matching Adjustment to zero on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is summarised below and shown in QRT S.22.01.22 in Appendix 1.4 for PGH Group, QRT S.22.01.21 in Appendix 2.4 for PLL, and QRT S.22.01.21 in Appendix 3.4 for PLAL.

The Basic and Eligible Own Funds presented below for PGH Group include the Method 2 Standard Life insurance subsidiaries. The impact to Basic and Eligible Own Funds also include any effect of removal of Matching Adjustment for the Method 2 Standard Life insurance subsidiaries.

As the Standard Life insurance subsidiaries are not included in the Group's technical provisions as a result of the Method 2 treatment, the impact of the removal of Matching Adjustment on technical provisions in the PGH Group table below relates to the Method 1 Group only.

PGH Group	Including Matching Adjustment £m (A)	Excluding Matching Adjustment £m (B)	Impact of removing Matching Adjustment £m (B) – (A)
Technical provisions	60,861	61,914	1,053
Basic Own Funds	10,235	8,639	(1,596)
Eligible Own Funds to meet SCR	10,323	8,727	(1,596)
SCR	7,085	8,386	1,301

PLL	Including Matching Adjustment £m (A)	Excluding Matching Adjustment £m (B)	Impact of removing Matching Adjustment £m (B) – (A)
Technical provisions	49,799	50,719	920
Basic Own Funds	4,081	3,230	(851)
Eligible Own Funds to meet SCR	4,081	3,230	(851)
SCR	2,911	3,681	770

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.7 Solvency II Long-term Guarantee and Transitional Measures continued
D.2.7.1 Matching Adjustment continued

PLAL	Including Matching Adjustment £m (A)	Excluding Matching Adjustment £m (B)	Impact of removing Matching Adjustment £m (B) – (A)
Technical provisions	13,664	13,797	133
Basic Own Funds	1,598	1,465	(133)
Eligible Own Funds to meet SCR	1,598	1,465	(133)
SCR	1,214	1,299	85

D.2.7.2 Transitional Measures for Technical Provisions (unaudited)

Transitional measures allow insurers to recognise the impact of increased technical provisions calculated under the Solvency II regime compared to the previous Solvency I regime (using the Pillar 2 Individual Capital Assessment ('ICA') basis) on a gradually reducing basis over 16 years. The Group's technical provisions calculated under Solvency II exceed those calculated under the Solvency I regime for two main reasons. Firstly, the regulations require inclusion of a risk margin within technical provisions which was not required under Solvency I. Secondly; the regulations require the use of a swap-based risk-free curve to discount liabilities whereas under Solvency I, the Group used a higher gilts-based risk-free curve to determine the discount rate.

The TMTP is a deduction from the amount of Solvency II technical provisions and is included as part of Tier 1 Basic Own Funds. In summary, the initial deduction is calculated as the difference between Solvency II technical provisions and Solvency I technical provisions as at 1 January 2016. The deduction runs off linearly to zero over the course of the 16-year transitional period unless a faster pace of run-off is required due to the actual run-off of the business being higher than 1/16 per annum. As the Life Companies within the Group are largely closed to new business, the run-off of the risk margin and technical provisions are expected to predominately offset the impact of the run-off of the TMTP.

The regulations require all firms to recalculate their transitionals every two years after 1 January 2016 or more frequently under circumstances where the risk profile of the business changes materially and to reflect this recalculation in the reported transitionals amount. As per the two-year recalculation cycle, for both PLL and PLAL, a recalculation of the TMTP was conducted as at 31 December 2017. Following recalculation, the TMTP reduced for both PLL and PLAL. No further recalculation has been performed as at 31 December 2018.

The TMTP reported in this valuation allows for three years run-off (for example, 13/16 of the figure before run-off) although the requirement to apply the third year's run-off did not strictly apply until 1 January 2019.

For PLL the TMTP has reduced from £1,740 million at the previous valuation on 31 December 2017 to £1,615 million for the current valuation.

For PLAL the TMTP has reduced from £797 million at the previous valuation on 31 December 2017 to £740 million for the current valuation.

There is a requirement that the TMTP should not result in the financial resources (technical provisions plus other liabilities plus capital requirements) held under Solvency II to be less than those that would have been held under the Solvency I regime. The assessment on both bases as at 31 December 2018 demonstrated that no such restriction was required.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.7 Solvency II Long-term Guarantee and Transitional Measures continued

D.2.7.2 Transitional Measures for Technical Provisions (unaudited) continued

The impact of reducing the TMTP to zero on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is summarised below and shown in QRT S.22.01.22 in Appendix 1.4 for Group, in QRT S.22.01.21 in Appendix 2.4 for PLL and QRT S.22.01.21 in Appendix 3.4 for PLAL.

The Basic and Eligible Own Funds presented below for PGH Group include the Method 2 Standard Life insurance subsidiaries. The impacts also include any impact of removal of TMTP for the Method 2 Standard Life entities.

As the Standard Life insurance subsidiaries are not included in the Group's technical provisions as a result of the Method 2 treatment, the impact of the removal of TMTP on technical provisions in the PGH Group table relates to the Method 1 Group only.

PGH Group	Including transitionals £m (A)	Excluding transitionals £m (B)	Impact of removing transitionals £m (B) – (A)
Technical provisions	60,861	63,217	2,356
Basic Own Funds	10,235	7,503	(2,732)
Eligible Own Funds to meet SCR	10,323	7,591	(2,732)
SCR	7,085	7,058	(27)

PLL	Including transitionals £m (A)	Excluding transitionals £m (B)	Impact of removing transitionals £m (B) – (A)
Technical provisions	49,799	51,414	1,615
Basic Own Funds	4,081	2,886	(1,195)
Eligible Own Funds to meet SCR	4,081	2,886	(1,195)
SCR	2,911	2,845	(66)

PLAL	Including transitionals £m (A)	Excluding transitionals £m (B)	Impact of removing transitionals £m (B) – (A)
Technical provisions	13,664	14,404	740
Basic Own Funds	1,598	1,051	(547)
Eligible Own Funds to meet SCR	1,598	1,051	(547)
SCR	1,214	1,253	39

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.7 Solvency II Long-term Guarantee and Transitional Measures continued
D.2.7.2 Transitional Measures for Technical Provisions (unaudited) continued

In addition to impacting the technical provisions, any change in TMTP also affects the SCR. This is due to the impact of the change in TMTP on both the Loss Absorbing Capacity of Deferred Tax ('LACDT') and the additional management actions applied in the SCR calculation, which can be used to reduce losses under stressed conditions.

D.2.7.3 Volatility Adjustment (unaudited)

As noted in section D.2.1 the Phoenix Life insurance subsidiaries do not apply the Volatility Adjustment, and therefore any removal of Volatility Adjustment would not impact the technical provisions of those entities. However, because SLAL do apply a Volatility Adjustment any impact of removing the Volatility Adjustment would impact the Basic Own Funds and Eligible Own Funds of PGH Group. The table below sets out the impact on the Group's Basic Own Funds and Eligible Own Funds as set out in S.22.01.22 in Appendix 1.4. In light of the Method 2 treatment of SLAL, there is no impact on the PGH Group technical provisions of removing the Volatility Adjustment. Further details regarding the Volatility Adjustment are set out in the section D.2.7.2 of the SLAL SFCR for the year ended 31 December 2018.

PGH Group	Including Volatility Adjustment £m (A)	Excluding Volatility Adjustment £m (B)	Impact of removing Volatility Adjustment £m (B) – (A)
Technical provisions	60,861	60,861	–
Basic Own Funds	10,235	10,173	(61)
Eligible Own Funds to meet SCR	10,322	10,261	(61)
SCR	7,085	7,045	(40)

D.2.8 Recoverables on reinsurance contracts

The amounts recoverable on reinsurance contracts are recognised as a reinsurance asset on the Solvency II balance sheet and calculated in the same manner as the BEL. The amounts recoverable are adjusted to take account of expected losses due to default of the counterparty which is described below.

D.2.8.1 Assessment of reinsurers' default risk (counterparty default adjustment)

The regulations require that an adjustment is made to the value of the reinsurance asset to reflect the risk that a reinsurer may default on its obligations. This adjustment is known as the counterparty default adjustment.

A simplified method is used to calculate the counterparty default adjustment. The simplified calculation applies a best estimate probability of reinsurer default to the difference between the reinsured BEL and any collateral held under the arrangement. Further adjustments are then made to reflect the recovery rate from the reinsurer in excess of the collateral and the average duration of liabilities transferred. For internal reinsurance the probability of default has been set to zero, reflecting the enhanced ability to monitor and control the strength of the reinsurer.

There is no reinsurance with Solvency II SPVs.

D.2.9 Simplifications

Where it is proportionate, the Group adopts various simplifications in the calculation of BEL. These simplifications may exist within the calculation methodology, or within the valuation models themselves.

The most material areas where such simplifications are adopted are listed below.

D.2.9.1 Methodology simplifications

This section describes the significant simplifications within the Group's methodology for calculating the Solvency II BEL. However, neither is considered to have a material impact on BEL.

Dynamic policyholder behaviour

How valuable guarantees are to policyholders will vary with economic conditions. In the stochastic model, dynamic policyholder behaviour is modelled in respect of the GAO take-up rates, where the take-up rate varies depending on the level of projected interest rates at the policyholder's retirement date.

Variation in economic conditions would also affect the lapse and surrender rates. However, due to a lack of relevant experience data and modelling complexity, dynamic lapse and surrender rates are not currently modelled.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.9 Simplifications continued

D.2.9.1 Methodology simplifications continued

Counterparty default adjustment

The methodology set out in section D.2.8.1 above is a simplification permitted by the regulations.

D.2.9.2 Modelling simplifications

Substantially all of the Group's BEL is calculated using probability weighted averages of future cash flows. However, simplified valuation techniques have been used in certain circumstances. These simplifications are typically used where material uncertainty exists around the size, incidence or timing of liability cash flows or, where further model development is required for a more robust assessment. Examples include provisions set aside to cover items such as additional service fees, data issues, project implementation costs, impacts of system changes, impacts of regulation changes, unknown claims and litigation costs.

The Group uses the skills, knowledge and experience of actuaries, accountants and other subject matter experts to perform these assessments, which are carried out in accordance with the Group's internal framework on application of expert judgement.

The proportion of gross BEL calculated using simplified methods was 2%.

D.2.10 Uncertainty associated with the value of Technical Provisions

The sources and level of uncertainty associated with the risk margin component are described in section D.2.11.3.

The key sources and level of uncertainty associated with the BEL component of technical provisions are.

- uncertainty of demographic and economic assumptions;
- uncertainty in the timing and frequency of insured events;
- uncertainty in claim amounts, including uncertainty caused by path dependency (i.e. where the cash flows depend not only on circumstances such as economic conditions on the cash flow date, but also on those circumstances at previous dates);
- uncertainty in claims inflation;
- uncertainty in the amount of expenses and expense inflation;
- uncertainty in the actions that are assumed to be taken by management in response to changes in market conditions;
- uncertainty in expected future developments; and
- uncertainty in policyholder behaviour.

Some of this uncertainty is addressed by using a stochastic model. In particular, use of a stochastic model enables both the intrinsic and time value associated with options and guarantees to be determined with greater certainty. Use of a stochastic model also enables key dynamic policyholder behaviour and key management actions to be modelled.

Uncertainty may also emanate from the use of best estimate assumptions that did not accurately reflect the risk profile of the business being modelled. For example, demographic best estimate assumptions are typically based on an analysis of past experience with adjustments to allow for expected future trends and developments. However, these assumptions may not be borne out in practice for a number of reasons, including:

- lack of credible historical data upon which to base the assumption. This may require experience data from different homogenous risk groups being grouped, the use of relevant and credible industry data, or the assumption being set by expert judgement;
- allowance for future trends being different from expected; and
- random variation.

Any simplifications and approximations made when setting non-economic assumptions takes into account the sensitivity and materiality of the assumption.

An indication of the level of uncertainty associated with a particular assumption can be achieved by testing the sensitivity of BEL to that assumption. The table below (unaudited) shows the increase in net of reinsurance BEL that would result from a strengthening of each key demographic assumption at the 1-in-10 probability level (i.e. the probability of the best estimate assumption being outside of this level is 10% respectively). These impacts allow for the current risk mitigation techniques (e.g. reinsurance) in place.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.10 Uncertainty associated with the value of Technical Provisions continued

	Increase In Best Estimate Liability 1-in-10 probability level £m		
Assumption	**PLL**	**PLAL**	**PGH Group**
Longevity (base table)	230	119	349
Longevity (future improvements)	460	250	710
Mortality	105	(4)	101
Lapses	330	208	538
Expenses	54	21	75

No uncertainty is assumed to result from the basic risk-free curve used in the calculation of BEL, as this is specified by the regulations.

D.2.11 Risk margin
The risk margin calculation represents the additional amount above the BEL that is required to be held under the Solvency II regulations. It is calculated at a value to proxy for the amount of compensation above BEL that a third party (i.e. the reference undertaking) would require to take over those liabilities.

The Group uses a simplified methodology to calculate the risk margin, as described in section D.2.11.1 below.

D.2.11.1 Methodology overview
The calculation of the risk margin for the undertaking is based on a 6% per annum cost of capital applied to the projected reference undertaking SCR. The reference undertaking SCR is based on non-hedgeable risks only. The definition of non-hedgeable risks for the reference undertaking SCR includes:

- underwriting risk with respect to the existing business;
- credit risk with respect to reinsurance contracts counterparties, policyholders and any other material exposures related to existing business; and
- operational risk, including tax and regulatory risk.

D.2.11.2 Validation of simplified approach and level of uncertainty
A 'full' calculation of the risk margin would involve:

- a 'full' calculation of the reference undertaking SCR over all future time periods; and
- calculating the risk margin at entity level and allocating this to each LoB.

However, in practice, for the vast majority of business, the Group uses a simplified bottom up approach such that the risk margin is initially calculated at fund LoB level by:

- allocating the time zero reference undertaking SCR to each fund and further by LoB. For each LoB this allocation makes allowance for the expected contribution from individual risks, management actions, diversification benefits and also non-linearity. Non-modelled risks are allocated in a simplified way using LoB weightings based on modelled BEL; and
- applying a 6% cost of capital charge to the 'projected' fund level LoB reference undertaking SCRs and discounting. For this purpose the fund level LoB reference undertaking SCR is typically projected using an annuity factor that is based on the run-off profile of the BEL for each LoB.

The insurance subsidiary risk margins are then the sum of the LoB risk margins across all funds. The Group risk margin is the sum of the insurance subsidiary's risk margins.

In order to understand the impact of the simplification used to allocate the SCR to LoB, alternative methods of allocating the SCR to LoB have been investigated (e.g. the impact of allocating non-modelled risks to LoB using policy counts instead of the BEL). This demonstrated that the risk margin results were relatively insensitive to the alternative allocation methods that were tested.

In order to understand the impact of the simplification used to represent the projection of the SCR, alternative run-off approaches were also assessed. In particular:

- Realistic run-off patterns for key non-market risks. Simplified models were used to produce run-off patterns for key risks and are validated by comparing them to BEL run-off profiles. This showed that the current approach was likely to be prudent for the key risks.
- Alternative proxies to run-off the SCR were used (e.g. sum assured) and the sensitivity of the risk margin calculation was assessed. This showed that the risk margin results were relatively insensitive to the alternative run-off patterns tested.
- For certain product lines, where the general approach described in section D.2.11.1 is not appropriate, more granular techniques are employed to ensure appropriate projection of the reference undertaking SCR.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.11 Risk Margin continued

D.2.11.3 Uncertainty associated with the risk margin

Uncertainty attached to the risk margin calculation primarily stems from its unduly high sensitivity to interest rate movements. Sensitivity to interest rates arises because interest rate movements can have a significant second order impact of the size of the longevity risk SCR and because risk-free rates are used to discount the projected reference undertaking SCRs. This is a general industry-wide concern of which the UK regulator and EIOPA have been made aware. However, a material change in interest rates may trigger a recalculation of the TMTP (see section D.2.7.2), subject to regulatory approval, which would currently act to offset much of the volatility in the risk margin calculation.

Some uncertainty also relates to the simplifications used by the Group to calculate the risk margin. However, based on the results of the validation investigations described above, the level of this uncertainty is currently deemed immaterial.

D.3 OTHER LIABILITIES

D.3.1 Introduction

The valuation of other liabilities on the Solvency II balance sheet is covered in section D.1. The valuation of technical provisions is covered in section D.2. Some of the Group's liabilities (mainly financial instruments) are determined using alternative valuation methods which use non-observable market inputs. Further details are included in section D.4.1.

D.3.2 Deferred tax liabilities

Further details regarding deferred tax liabilities are set out in section D.1.3

D.3.3 Pension schemes

As detailed in section D.1.2, PGH has three material defined benefit staff pension schemes. In accordance with the regulations, all schemes are valued consistently with IFRS (i.e. IAS19 valuation basis). This section gives further detail on the Group's three main pension schemes for its employees.

At 31 December 2018, the value of the Pearl Group Scheme is £255 million and is shown as 'pension benefit surplus' on the Solvency II balance sheet.

At 31 December 2018, the value of the PGL Scheme in PGH1 is £355 million including the value of its reimbursement rights arising from bulk annuity contracts entered into with PLL. As detailed in section D.1.2, this value is not included in the 'pension benefit obligations' line of the balance sheet as it is recognised in an entity which is not subject to line by line consolidation. As PGH1 is treated as a 'participation' for Solvency II, the value of the PGL Scheme is included within 'holdings in related undertakings, including participations'. Transactions between the Group's pension schemes and Life Companies are fully eliminated on consolidation. Accordingly, certain financial assets which under collateral agreements support the pension scheme obligations are included on a line by line basis, as the risks and rewards are held by PLL. The full pension scheme obligation, calculated in accordance with IAS19 is recognised in 'holdings in related undertakings including participations'.

At 31 December 2018, the value of the Abbey Life Scheme is £(74) million and shown in 'pension benefit obligations' on the Solvency II balance sheet. The Abbey Life Scheme pension obligations are valued in the PeLHL holding company, following the transfer of the Scheme from ALAC.

Further details regarding the Group's pension schemes, including the principal assumptions used in their valuation are set out in note G6 of the PGH plc Annual Report and Accounts for the year ended 31 December 2018 which can be found on the Group's website.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.3 OTHER LIABILITIES CONTINUED
D.3.3 Pension schemes continued
D.3.3.1 Scheme assets

The distribution of the scheme assets for each pension scheme as at 31 December 2018 were as follows:

	Pearl Scheme		PGL Scheme		Abbey Life Scheme	
Pension scheme assets	**Asset value £m**	**% of total scheme assets**	**Asset value £m**	**% of total scheme assets**	**Asset value £m**	**% of total scheme assets**
Index-linked bonds	–	–	848	73%	–	–
Swaps	–	–	5	1%	–	–
Government bonds	–	–	–	–	84	36%
Equities	–	–	–	–	24	10%
Fixed interest gilts	54	2%	291	25%	–	–
Other debt securities	1,251	48%	–	–	–	–
Properties	294	11%	–	–	–	–
Private equities	28	1%	–	–	–	–
Hedge funds	15	1%	–	–	–	–
Corporate bonds	–	–	16	1%	148	64%
Cash and other	92	3%	12	1%	17	7%
Derivatives	–	–	–	–	(40)	(17)%
European Investment Bank Bonds	–	–	9	1%	–	–
Obligations for repayment of stock lending collateral received	(1,115)	(42)%	(24)	(2)%	–	–
Reported scheme assets	**2,631**	**100%**	**1,157**	**1%**	**233**	**100%**
Add back:						
Insurance policies eliminated on consolidation with PLL	–		877		–	
Economic value of assets	**2,631**		**2,034**		**233**	

1 Net of obligations for repayment of stock lending collateral received.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.4 ALTERNATIVE METHODS FOR VALUATION

This section provides information on alternative valuation methods used by the Group. Sections D.1.2 and D.3.2 identified the assets and liabilities valued using this approach. Further information is provided below on the justification for the use of alternative valuation methods and the assumptions underlying this approach. An assessment of the valuation uncertainty is performed by management on a bi-annual basis and the results of such analysis shared via governance.

There have been no significant changes in the recognition, measurement or valuation base used for financial assets and liabilities during the reporting period.

Further details regarding the alternative methods for valuation used by the Standard Life insurance subsidiaries can be found in section D.4 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018. The table below covers the Group excluding these entities.

D.4.1 Alternative valuation methods – assets

Some of the Group and insurance subsidiaries financial instruments are valued using alternative valuation methods, which utilise a combination of observable and non-observable market inputs. All of the alternative valuation methods described below follow accepted market practice.

For ALAC and PA(GI) there are no items valued using alternative methods as at 31 December 2018.

Asset	PLL	PLAL	Other Group entities and Group adjustments	PGH Group	Alternative valuation method	Assumption
Assets held for index-linked and unit-linked contracts	526	–	–	526	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques are consistent with the market approach (for example, levels of fair value hierarchy).	Various assumptions depend on class of asset.
Property, plant and equipment held for own use	–	–	25	25	Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology.	Further details are set out on page 192 of the PGH plc Annual Report and Accounts for the year ended 31 December 2018.
Property (other than for own use)	346	37	6	389	Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology.	As per RICS valuation manual and based on professional judgement of independent valuers; for the property reversionary loans, mortality rates, discount rate, future growth in house prices are key assumptions. Page 193 of the PGH plc Annual Report and Accounts for the year ended 31 December 2018 shows the valuation techniques used in measuring the fair value of the investment properties (included in property (other than for own use), the significant non-observable inputs used, the inter-relationship between the key non-observable inputs and the fair value measurement of the investment properties.

SECTION A BUSINESS AND PERFORMANCE
SECTION B SYSTEM OF GOVERNANCE
SECTION C RISK PROFILE
SECTION D VALUATION FOR SOLVENCY PURPOSES
SECTION E CAPITAL MANAGEMENT
APPENDIX AND ADDITIONAL INFORMATION

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED
D.4.1 Alternative valuation methods – assets continued

Asset	PLL	PLAL	Other Group entities and Group adjustments	PGH Group	Alternative valuation method	Assumption
Holdings in related undertakings including participations	871	582	15	1,468	Non-observable market input, primarily net asset value statements.	Relevant assumptions and valuation principles as detailed in section D.1.2 applied to the calculation of the net asset value of related undertakings. Further details regarding the valuation of the Standard Life insurance subsidiaries (SLAL, SLIDAC and SLPF) can be found in section D,1 of their respective SFCRs for the year ended 31 December 2018.
Corporate bonds	658	95	–	753	Combination of observable and non-observable market inputs including modelling.	Spread. Comparable gilt, and spread applied.
Government bonds	535	96	–	631	Combination of observable and non-observable market inputs including modelling.	Spread. Comparable gilt, and spread applied.
Collective Investment Undertakings	1	263	15	279	Non-observable market input, primarily net asset value statements.	Relevant assumptions and valuation principles as detailed in section D.1.2 applied to the calculation of the net asset value of related undertakings.
Collateralised securities	1,655	28	(1,620)	63	Combination of observable and non-observable market inputs, including modelling and broker quotes. ERM loan notes: Adoption of an equation of value approach, which means that the aggregate value of the notes equal the value of ERM loans (noted below), other than frictional costs.	Spread; comparable gilt and spread applied; broker quotes. ERM: Refer to detail in 'loans and mortgages' section below.
Other[1]	4	7	37	48	Unlisted equities: Non-observable market inputs, primarily net asset value statements and broker quotes. Structured notes: Combination of observable and non-observable market inputs, including modelling.	Unlisted equities: Net asset valuation statements and broker quotes. Structured notes: Discount rate, illiquidity discount.
Derivatives	1,009	611	3	1,623	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing.	Various assumptions used depending on derivative, including interest rate curve, discount curve and implied volatility.

1 Other includes unlisted equities and structured notes.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED
D.4.1 Alternative valuation methods – assets continued

Asset	PLL	PLAL	Other Group entities and Group adjustments	PGH Group	Alternative valuation method	Assumption
Loans and mortgages	2,310	19	(195)	2,134	ERM: Internally developed discounted cash flow models using appropriate assumptions corroborated with external market data where possible. Commercial Real Estate ('CRE') loans: Discounted cashflow model, with discount rate based on observable and non-observable market inputs, Intra-group loans: Discounted cash flow model, with the discount rates based on market observable rates. Other loans: Income approach, which converts future amounts, such as cash flows or income or expenses, to a single current amount. The fair value reflects current market expectations about those future amounts. Valuation techniques consistent with the income approach include present value techniques, option pricing models and the multi-period excess earnings method.	ERM: swap curve, house price index, discount rate and loan repayments. CRE: Spread; Gilt curve. Intra-group loans: discount rate. Other loans: Various assumptions depending on loan type.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED

D.4.1 Alternative valuation methods – assets continued

In relation to investments in hedge funds and private equity investments (which are included within the table above as holdings in related undertakings including participations, collective investment undertakings and other (equities-unlisted)), non-observable third party evidence in the form of net asset valuation statements are used as the basis for the valuation.

Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required.

Securities that are valued using broker quotes, which cannot be corroborated across a sufficient range of quotes, are considered to be valued using non-observable market data.

For a small number of investment vehicles and debt securities, standard valuation models are used, as due to their nature and complexity they have no external market. Inputs into such models are based on observable market data, where applicable.

Derivative positions are valued using standard valuation models, combining observable and non-observable market inputs. They are subject to price verification against independent sources and are not subject to sensitivity analysis.

D.4.2 Financial instrument sensitivities

Further details regarding the impact of reasonably possible changes in valuation inputs, including a sensitivity analysis showing how these changes affect the assets, are set out in note E2.3 and G9 (investment properties) of the PGH plc Group Annual Report and Accounts for the year ended 31 December 2018. Sensitivity analysis for the insurance subsidiaries is shown in the financial instrument and risk management notes of the PLL and PLAL financial statements for the year ended 31 December 2018. All figures quoted reflect the impact to both the assets valuation and the Basic Own Funds of the sensitivity being applied.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED

D.4.3 Alternative valuation techniques – liabilities

As outlined in section D.4.2 the Group uses alternative valuation techniques using non-observable market inputs for certain financial liabilities. These are used to value refinancing loans, which are based on a combination of independent third party evidence and internally developed models. All of the alternative valuation methods described below follow accepted market practice.

Liabilities	PLL	PLAL	Other Group entities and Group adjustments	PGH Group	Alternative valuation method	Assumption
Deposits from reinsurers	340	–	–	340	DCF approach, using a market observable discount rate.	Contractual cash flows discounted using a swaps-based risk-free curve.
Derivatives	366	326	3	695	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques are consistent with the market approach (for example, levels of fair value hierarchy).	Various assumptions used are dependent on derivative type, including interest rate curve, discount curve and implied volatility.
Debts owed to credit institutions	78	89	129	296	Refinancing loans: Internally developed model using a combination of observable and non-observable market inputs. Limited recourse bonds: Discounted cash flow methodology, then applying a suitable discount rate to adjust for OCS.	Various assumptions including discount rate (based on asset duration, adjusted for liquidity/ mortality risk) and house price inflation.
Subordinated liabilities in Basic Own Funds	217	–	1,712	1,929	DCF approach, using a market observable discount rate adjusted to exclude the effect of changes in OCS.	PLL: Contractual cash flows discounted using a selected reference gilt yield. Changes in OCS are excluded by reference to the spread to the reference gilt at issue. Other Group companies: Contractual cash flows, discounted using a swap rate. Changes in OCS are excluded by reference to the swap rate at issue.

The valuation of property reversion loans is sensitive to key assumptions of the discount rate and the house price inflation rate, set out in note E2.3 of the PGH plc Annual Report and Accounts for the year ended 31 December 2018.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the valuation of assets and liabilities for solvency purposes.

SECTION E
CAPITAL MANAGEMENT

IN THIS SECTION

CAPITAL MANAGEMENT

This section provides information on the Group and insurance subsidiaries' Own Funds and SCR, including changes over the reporting period, together with an explanation of the material differences between net assets under IFRS and the Solvency II excess of assets over liabilities.

The Solvency II capital assessment involves valuation of Own Funds in line with the Solvency II regulations and a risk-based assessment of the SCR. Solvency II surplus is the excess of Eligible Own Funds over the SCR.

The capital assessment for the PGH plc Group presented in this section includes Method 1 and Method 2 Groups.

The Group and insurance subsidiaries' hold an amount of Eligible Own Funds that is greater than the SCR to allow for adverse events in the future that may reduce Own Funds and might otherwise cause failure to maintain the minimum level of regulatory capital, the Minimum Capital Requirement ('MCR').

The SCR, shareholder coverage ratios and availability restrictions applied to Own Funds mentioned throughout this section are unaudited.

KEY SOLVENCY METRICS

As at 31 December 2018, the capital position for PGH and its insurance subsidiaries (including the acquired Standard Life insurance subsidiaries) is presented in the table below:

31 December 2018	PLL	PLAL	ALAC	PA(GI)	SLAL	SLIDAC	SLPF	Other Group entities[1]	Consolidation and other adjustments[2]	PGH Group 31 December 2018	PGH Group 31 December 2017
Eligible Own Funds	4,081	1,598	4	67	4,203	115	9	23,738	(23,492)	10,323	6,672
SCR	(2,911)	(1,214)	–	(6)	(2,477)	(83)	(2)	(1,356)	964	(7,085)	(4,822)
Solvency II surplus	**1,170**	**384**	**4**	**61**	**1,726**	**32**	**7**	**22,382**	**(22,528)**	**3,238**	**1,850**
Ratio of Eligible Own Funds to SCR	**140%**	**132%**	**n/a**	**1,203%**	**170%**	**139%**	**545%**			**146%**	**138%**
Shareholder capital coverage ratio	**178%**	**156%**	**n/a**	**1,203%**	**186%**	**139%**	**545%**			**167%**	**164%**

1 Other Group entities includes the Eligible Own Funds of the Group's holding companies and non-insurance subsidiaries including unrestricted pension schemes, subordinated liabilities treated as capital for solvency purposes and other assets and liabilities.
2 Group consolidation adjustments includes the elimination of intercompany balances and participations.

As at 31 December 2018, the Group's Solvency II surplus over the Consolidated Group SCR is £3,238 million (2017: £1,850 million), with a ratio of Eligible Own Funds to SCR of 146% (2017: 138%).

76% of the Group's Eligible Own Funds are unrestricted Tier 1 (2017: 76%), and are principally comprised of ordinary share capital, share premium account related to ordinary share capital, surplus funds and the reconciliation reserve. This includes TMTP which are included in the calculation of Basic Own Funds as Tier 1 capital.

The Group and its insurance subsidiaries do not have any Ancillary Own Funds.

All the required SCR quantitative limits have been complied with for the Group and insurance subsidiaries, and result in no restrictions nor are any Own Funds required to be relegated to lower tiers.

Further details regarding the capital position of each of the insurance subsidiaries are set out in section E.1.

SHAREHOLDER CAPITAL COVERAGE RATIO

In the calculation of the Solvency II surplus, the SCR of unsupported with-profit funds and the Group pension schemes are included, but the related Eligible Own Funds are recognised only to a maximum of their respective SCR amounts. Surpluses that arise in with-profit funds and the pension schemes, are therefore not recognised in the Solvency II surplus as there is uncertainty as to the extent (if any) to which such surpluses will accrue to shareholders. However, such surpluses are available to absorb economic shocks, thereby increasing resilience to economic stresses.

The Group focuses on the metric of shareholder capital coverage ratio as a more appropriate measure of the extent to which shareholders' Eligible Own Funds cover the associated risk capital. It is defined as the ratio of Eligible Own Funds to SCR, after adjusting to exclude Own Funds and SCR amounts relating to unsupported with-profit funds and the PGL Scheme.

Excluding the SCR and Own Funds relating to unsupported with-profit funds and the PGL Scheme, the Solvency II Shareholder Capital coverage ratio of PGH Group is 167% as at 31 December 2018 (2017: 164%).

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS

E.1.1 Management of Own Funds

The Group's Capital Management Framework for managing its Own Funds is designed to achieve the following objectives:

- provide appropriate security for policyholders and meet all regulatory capital requirements while not retaining unnecessary excess capital;
- ensure sufficient liquidity to meet obligations to policyholders and other creditors;
- optimise the overall financial leverage ratio to maintain an investment grade credit rating; and
- to meet the dividend expectations of shareholders as set by the Group's dividend policy.

The Group and its insurance subsidiaries operate under a suite of capital management policies that govern the allocation of capital throughout the Group to achieve the framework objectives under a range of stress conditions. The policy suite considers policyholder security, creditor obligations, dividend policy and regulatory capital requirements.

A liquidity policy is set by the Boards and monitored each month at both executive and Board level. The policy ensures sufficient liquidity to meet creditor and dividend obligations through the combination of cash buffers and regular cash flow forecasting. Volatility in the latter is monitored at executive and Board level through stress and scenario testing. Where cash flow volatility is judged to be in excess of the relevant Board's risk appetite, de-risking activities are undertaken. Also see section C.4 on liquidity risk management.

A capital policy is also set by the relevant Boards and monitored by management regularly, to ensure there is sufficient capital to meet the SCR under stress conditions which are currently determined at a 1-in-10 level. The capital policy is managed according to the risk profile and financial strength of the Group and Phoenix Life insurance subsidiaries.

The Group and its insurance subsidiaries future capital position is projected over a five-year planning horizon as part of the Annual Operating Plan process.

Further details are also provided in section E.5.

The Standard Life insurance subsidiaries operate their own Capital Management Framework and as a result the Group's policy suite was extended to include the policies in place for these entities. Work is ongoing to harmonise the polices with the Phoenix framework.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.2 Structure and quality of Own Funds

Own Funds are split into Tiers in line with the regulations. There are three 'Tiers' based on both 'permanence' and 'loss absorbency' (Tier 1 being the highest quality). Tier 1 is further divided into 'unrestricted' and 'restricted' Tier 1.

Own Funds which are classified as 'unrestricted' Tier 1 include share capital, surplus funds and the reconciliation reserve. Relevant Own Funds items which are classified as 'restricted' Tier 1 are certain subordinated liabilities and cannot make up more than 20% of total Tier 1.

The regulations impose limits on the amount of each Tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that may arise. Own Funds items need to be sufficient in amount, quality and liquidity to be available when the liabilities they are to cover arise. Items with a fixed duration or a right to redeem early may not be available when needed. Similarly, obligations to pay distributions or interest will reduce the amount available. The rules on 'tiering' are designed to reflect the existence of such features.

The regulations set out three approaches for calculating Group solvency, 'Method 1' (this is the default accounting based consolidation method), 'Method 2' (the deduction and aggregation method); or a combination of Methods 1 and 2. Under Method 2, the solo Own Funds are aggregated rather than consolidated on a line by line basis, with any double count of capital removed. The SCR is aggregated, with no allowance for diversification and further adjustments.

The Group has approval to use a combination of Methods 1 and 2 for calculating its Group solvency results. Method 2 is used for all of the Standard Life entities acquired and Method 1 is used for all other entities of the Group.

All intra-group balances within the PGH Group between Method 1 entities are eliminated on consolidation (including internal subordinated debt balances) and therefore the position presented for the Group reflects the Own Funds net of any intra-group transactions (including reinsurance).

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group

The table below summarises the PGH Group's solvency position at 31 December 2018. The Own Funds QRT S.23.01.22 can also be found in Appendix 1.5. In order to better present the position of the Group, the Method 1 and Method 2 Group are combined in the table below. A different presentation is used in the Own Funds QRT to separately identify participations included using a deduction and aggregation basis.

		31 December 2018					31 December 2017
	Section reference	Tier 1 (Unrestricted)	Tier 1 (Restricted)	Tier 2	Tier 3	Total	Total
Description		**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Ordinary share capital	E.1.3.1	72	–	–	–	**72**	–
Share premium account related to ordinary share capital	E.1.3.1	3,077	–	–	–	**3,077**	**1,452**
Surplus funds	E.1.3.1	2,511	–	–	–	**2,511**	**2,287**
Reconciliation reserve (pre-availability restrictions)	E.1.3.1	4,617	–	–	–	**4,617**	**2,203**
Deferred tax assets	E.1.3.1	–	–	–	101	**101**	**151**
Preference shares (Tier 1 Notes)	E.1.3.1	–	503	–	–	**503**	–
Excess of assets over liabilities		**10,277**	**503**	–	**101**	**10,881**	**6,093**
Subordinated liabilities	E.1.3.2	–	–	1,483	446	**1,929**	**1,479**
Total Basic Own Funds[1]		**10,277**	**503**	**1,483**	**547**	**12,810**	**7,572**
Availability restrictions in reconciliation reserve	E.1.3.3	(1,299)	–	–	–	(1,299)	(900)
Availability restriction – SLAL RFFs	E.1.3.3	(1,188)	–	–	–	(1,188)	–
Eligible Own Funds to meet SCR		**7,790**	**503**	**1,483**	**547**	**10,323**	**6,672**
Group SCR	E.1.3.4					(7,085)	(4,822)
Solvency II surplus						**3,238**	**1,850**
Ratio of Eligible Own Funds to SCR						**146%**	**138%**
Shareholder capital coverage ratio						**167%**	**164%**

1 Basic Own Funds do not agree to that presented on the Own Funds QRT due to the different presentation of the Method 2 Group and availability restrictions in the table above.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.1 Basic Own Funds

The PGH Group Basic Own Funds pre availability restrictions total £12,810 million (2017: £7,572 million) and comprise of ordinary share capital, share premium account related to ordinary share capital, surplus funds, a reconciliation reserve, subordinated liabilities and deferred tax assets. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital

The Group's issued and fully paid up ordinary share capital is £72 million (2017: less than £1 million) and is treated as Tier 1 unrestricted Own Funds. The Articles of Association of PGH include the right to cancel and withhold dividends at any time prior to payment. The increase in the share capital during the period is as a result of the creation of the new parent company. Further details are set out in note A1 (page 128) of the consolidated financial statements in the PGH plc Annual Report and Accounts for the year ended 31 December 2018.

Share premium account related to ordinary share capital

The share premium account related to ordinary share capital of £3,077 million (2017: £1,452 million) is treated as Tier 1 unrestricted Own Funds. The increase is the share premium during the period is as a result of the creation of the new parent company. Further details are set out in note A1 (page 128) of the consolidated financial statements in the PGH plc Annual Report and Accounts for the year ended 31 December 2018.

Surplus funds

Surplus funds represent accumulated profits within a with profits fund which have not yet been made available for distribution to policyholders. They satisfy the characteristics of Tier 1 because they will only be distributed to policyholders and shareholders in the future if it is appropriate to do so and are loss-absorbent because future distributions can be reduced if the amount of accumulated profits reduces due to future losses. They are generally only available to meet losses arising within the relevant with profit fund and this is taken into account by restricting the Own Funds of each fund to the amount required to cover that fund's notional SCR.

The Group Basic Own Funds include surplus funds of £2,511 million (2017: £2,287 million) which are classified as Tier 1 unrestricted Own Funds. The surplus funds included reflect the Phoenix Life insurance subsidiaries only. The value of the Standard Life insurance subsidiaries surplus funds are included as part of the reconciliation reserve.

The regulations require certain elements of the Solvency II balance sheet to be ring fenced in order not to disadvantage policyholders in certain funds. Therefore, since the surplus funds exist in the with-profit funds, they are subject to Ring Fenced Fund ('RFF') restrictions. Surplus funds can only be included in Eligible Own Funds up to the value of the SCR they are used to support. A restriction is required to be made for any amount of surplus funds in excess of the relevant SCR through deduction from the reconciliation reserve (see section E.1.3.3).

Preference shares

On 26 April 2018, Old PGH, following PRA approval issued £500 million of Restricted Tier 1 bonds due 2028 with a coupon of 5.75% up to the first call date of 26 April 2028. On 12 December 2018, PGH plc was substituted in place of Old PGH as issuer. The Restricted Tier 1 bonds meets the definition of equity for IFRS. Details of the principal loss absorbency mechanism used to comply with Article 71 (1)(e) of the regulations, including the trigger points and its effects are included on page 142 of the PGH plc Group Annual Report and Accounts for the year ended 31 December 2018. The Restricted Tier 1 bonds are disclosed as preference shares for Solvency II, as clarified in the appendix to the PRA Policy Statement PS4/19 'Solvency II: Adjusting for the reduction of loss absorbency where own fund instruments are taxed on write down'.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group *continued*

Reconciliation reserve

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. The reconciliation reserve may be subject to potential volatility and further details regarding the impact of various sensitivities on the excess of assets over liabilities which forms part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

Reconciliation Reserve	31 December 2018 £m	31 December 2017 £m
Excess of assets over liabilities	10,881	6,093
Deduct other Basic Own Funds items:		
Ordinary share capital	(72)	–
Share premium account related to ordinary share capital	(3,077)	(1,452)
Surplus funds	(2,511)	(2,287)
Preference shares (Tier 1 Notes)	(503)	–
Deferred tax asset – Tier 3	(101)	(151)
Reconciliation reserve pre availability restrictions	**4,617**	**2,203**
Adjustment for restricted Own Funds items in respect of RFF (see section E.1.3.3)	(768)	(416)
Non-available Own Funds – pension scheme surplus (see section E.1.3.3)	(176)	(258)
Non-available Own Funds – foreseeable dividends (see section E.1.3.3)	(169)	(99)
Non-available Own Funds – diversification benefits (see section E.1.3.3)	(109)	(62)
Non-available Own Funds – PLL availability restriction (see section E.1.3.3)	(70)	(60)
Non-available Own Funds – restriction to regulatory return (see section E.1.3.3)	–	(4)
Non-available Own Funds – own shares restriction (see section E.1.3.3)	(7)	(2)
Total non-available Own Funds	**(1,299)**	**(900)**
Reconciliation reserve total (as shown on Own funds QRT)	**3,318**	**1,303**

Availability restrictions applied to the reconciliation reserve above together with other relevant considerations made in assessing the availability of Group Own Funds are detailed in section E.1.3.3.

Deferred tax assets

A deferred tax asset of £101 million (2017: £151 million) is included as Tier 3 Own Funds and further detail is included in section D.1.3. The table below sets out an analysis of movement in the deferred tax asset during the year.

Opening deferred tax assets (Tier 3) at 1 January 2018	**151**
Utilisation of trading losses	(54)
Expenses carried forward	19
Committed future pension contributions	(6)
Provisions and other temporary differences	(6)
Accelerated capital allowances	(3)
Closing deferred tax assets (Tier 3) at 31 December 2018	**101**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.2 Subordinated Liabilities

Details on the Group's subordinated liabilities are shown in the table below:

Note	Instrument description	Issuer	Tier of capital	31 December 2018 Solvency II Value £m	31 December 2017 Solvency II Value £m
A	£200m subordinated loan notes	PLL	Tier 2	217	225
B	£428m subordinated debt	PGH	Tier 2	434	439
C	US$500m Tier 2 bonds	PGH	Tier 2	381	366
D	€500m Tier 2 bonds	PGH	Tier 2	451	–
E	£450m Tier 3 notes	PGH	Tier 3	446	449
				1,929	**1,479**

All instruments qualify under the Solvency II regulations.

Notes

A: PLL Subordinated debt – Tier 2

Scottish Mutual Assurance Limited issued £200 million subordinated loan notes in 2001. With effect from 1 January 2009, as part of the Part VII transfer, these loan notes were transferred into the shareholder fund of PLL. The earliest repayment date of the loan notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding.

These notes qualified as Lower Tier 2 capital under the old Solvency I regime, but did not meet the full criteria set out in the regulations in order to be treated as either Tier 1 or Tier 2 capital. Under the regulations, the notes have transitioned into Solvency II as Tier 2 Own Funds. The transitional period ends 1 January 2026.

As this subordinated loan note has not been issued by the ultimate parent it can only contribute to the Group up to the contribution of PLL to the Group SCR. As at 31 December 2018, no restriction to the loan notes is required.

B: Subordinated debt – Tier 2

On 23 January 2015, PGH Capital Limited ('PGHC') issued £428 million of subordinated notes with a maturity date of 18 December 2025 at a coupon of 6.625% per annum, the terms and conditions of which would allow the instrument to be treated as Tier 2 capital under the regulations.

On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £428 million subordinated notes. On 12 December 2018, PGH plc was substituted in place of Old PGH as issuer.

C: US$500m Tier 2 bonds

On 6 July 2017, Old PGH issued US$ 500 million of Tier 2 bonds due 2027 with a coupon of 5.375% per annum. On 12 December 2018, PGH plc was substituted in place of Old PGH as issuer.

D: €500m Tier 2 bonds

On 24 September 2018, Old PGH issued €500 million of Tier 2 bonds due 2029 with a coupon of 4.375% per annum. On 12 December 2018, PGH plc was substituted in place of Old PGH as issuer.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.2 Subordinated Liabilities continued
E: Tier 3 notes

On 20 January 2017, PGHC issued £300 million of Tier 3 subordinated notes due 2022 at a coupon of 4.125% per annum. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of these notes.

On 5 May 2017, Old PGH also completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017.

On 12 December 2018, PGH plc was substituted in place of Old PGH as issuer.

Analysis of movement in subordinated debt

The table below sets out the changes in subordinated debt during the year. Further details are included in section E.1.5.3:

Instrument description	Subordinated debt – Tier 2	PLL subordinated debt – Tier 2	US$500m Tier 2 bonds	Euro500m Tier 2 bonds	Total Tier 2	Tier 3 notes	Total subordinated debt
Opening subordinated debt at 1 January 2018	439	225	366	–	1,030	449	1,479
Subordinated debt issuance	–	–	–	445	445	–	445
Foreign exchange retranslation	–	–	21	4	25	–	25
Fair value (losses)/gains	(5)	(8)	(6)	2	(17)	(3)	(20)
Closing subordinated debt at 31 December 2018	434	217	381	451	1,483	446	1,929

E.1.3.3 Availability restrictions
As shown in the reconciliation reserve table above (see section E.1.3.1), the total non-available Group Own Funds are £1,298 million (2017: £900 million). There is also an additional £1,188 million relating to a RFF restriction in SLAL which is treated as a Method 2 entity (SLPF and SLIDAC do not have RFFs). Further details on each of the restrictions are included below.

Ring Fenced Funds restriction

The regulations specify that certain Own Funds items in RFFs and Matching Adjustment portfolios should be restricted. This means they can only be included in the calculation of Group solvency at an amount less than or equal to the RFF and Matching Adjustment portfolios notional SCR.

The with-profit funds in the Life Companies are treated as RFFs. The items of Own Funds within each with-profit RFF are the value of surplus funds, future shareholder transfers, and any shareholder capital support received. The Matching Adjustment portfolios in the Life Companies are annuity funds and are also treated as RFFs. Any Own Funds above SCR in the Matching Adjustment portfolios are also restricted and also shown as a deduction to the reconciliation reserve.

There are no restrictions for Matching Adjustment portfolios at 31 December 2018 (2017: £nil).

The RFF deduction of £768 million (2017: £416 million) comprises £352 million (2017: £147 million) from PLL RFFs and £416 million (2017: £269 million) from PLAL RFFs.

As noted above there is also a £1,188 million RFF restriction for SLAL which is treated as a Method 2 entity.

The excess of assets over liabilities across the PGH Group for the RFFs which are subject to restriction and Matching Adjustment portfolios are £4,679 million (2017: £2,981 million).

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.3 Availability restrictions continued

Pension scheme surplus restriction

IAS19 surpluses arising on the PGL Scheme and Pearl Group Scheme are considered as restricted items of Own Funds and are therefore only included up to the contribution of the undertaking that recognises the surplus to the Group SCR, being PGH1 and PGH2 respectively.

As at 31 December 2018, £176 million (2017: £172 million) of the PGL Scheme surplus is considered restricted (including adjustment for assets held under collateral arrangements in the Life Companies). There is no restriction required for the Pearl Group Scheme (2017: £86 million restriction). The restriction represents the amount by which the IAS19 surplus exceeds PGH2's and PGH1's contribution to the Group SCR.

Foreseeable dividends

A deduction of £169 million has been recognised as at 31 December 2018 (2017: £99 million), reflecting dividends on ordinary shares which have been approved by the Board and have been paid or are payable at the time of sign-off of the SFCR.

Non available diversification benefits

Generally, each undertaking's contribution to the Group SCR will be less than its solo SCR due to the allocation of Group diversification benefits. The Group therefore assesses whether the difference between the undertaking's SCR and its contribution to the Group SCR is backed by Own Funds items that are capable of being considered fungible and transferable in order to be able to cover Group solvency. A restriction of £109 million to Own Funds has been recognised as at 31 December 2018 (2017: £62 million) reflecting the SCR Group diversification benefits allocated to the Group's Life Companies.

Such amounts are considered non-fungible given the regulatory requirement to maintain entity Own Funds sufficient to cover the undertaking's SCR on a solo basis.

Management are considering the future availability of this restriction going forward following the publication of the PRA Policy Statement PS9/19 'Solvency II: Group own funds availability' in March 2019.

PLL availability restriction

The contribution of each entity to the PGH Group Solvency II surplus is restricted if the Group benefits from the elimination of intra-group transactions compared to an entity's solo position, where those benefits are not backed by fungible and transferable Own Fund items.

During 2016, PLL entered into a 'buy-in' agreement with the Group's PGL Scheme (further details can be found in the SFCR for the year ended 31 December 2016). Following the elimination of intra-group amounts in relation to this transaction, the contribution of PLL to the PGH Group Solvency II surplus exceeded its solo Solvency II surplus by £70 million (2017: £60 million). Accordingly, a restriction of the same amount has been applied to the Group Own Funds.

Own share restriction

A deduction of £7 million (2017: £2 million) has been applied to the reconciliation reserve reflecting own shares held by PGH.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.4 Group SCR

The Group SCR is calculated using a partial Internal Model, (i.e. partially on the Group's two Internal Models and Standard Formula). The Group SCR at 31 December 2018 is £7,085 million (2017: £4,822 million).

Further details of the methodology used to calculate the SCR are included in section E.2 and a description of the undertakings which are in the scope of the Group's partial Internal Model are provided in section E.4.1.

The Group operated two approved Internal Models at 31 December 2018 and has approval to use a partial Internal Model to calculate the Group SCR. The Standard Life Internal Model covers SLAL and its subsidiaries excluding SLIDAC and the Phoenix Internal Model covers all of the other entities of the Group. SLIDAC, the Irish subsidiary of SLAL, is the only entity within the Group which calculates its capital requirements based on Standard Formula.

As at 31 December 2018, the Group has PRA approval to use a combination of Method 1 and Method 2 for calculation of the Group SCR. The Own Funds and SCR of the Method 2 entities are aggregated with the positions for the other Group entities which are consolidated on a Method 1 basis. No diversification is recognised between Method 1 and Method 2 entities.

Further details of the components of the Group SCR are shown in the table below:

Components of Group SCR	SCR pre diversification £m	Group adjustments £m	Diversification benefits £m	Total SCR £m
Life Companies	4,130	(277)	(109)	3,744
Insurance holding companies	1,113	–	(711)	402
Service Companies	25	–	(2)	23
Other entities	213	141	–	354
Total SCR (Method 1)	**5,481**	**(136)**	**(822)**	**4,523**
Total SCR (Method 2)	2,477	85	–	2,562
Total Group SCR (Method 1 and Method 2)	**7,958**	**(51)**	**(822)**	**7,085**

SCR in respect of insurance holding companies and other entities relates primarily to the Group's exposure to its defined benefit pension schemes.

The negative Group adjustment of £277 million for the Life Companies relates primarily to the treatment of intra-group loans and other intra-group transactions. At a solo level, the Life Companies hold SCR in respect of loan receivable balances due from the insurance holding companies and other Group entities. On preparation of the Group solvency calculation, the loan receivable and payable balances are eliminated on consolidation and accordingly the related SCR is also eliminated.

In addition, the Group adjustments shown above include the impact of a reallocation of SCR held in respect of obligations under the Group's PGL Scheme from the Life Companies to other Group entities. The reallocation arises following the elimination of transactions between PLL and the PGL Scheme.

The Group diversification benefits principally arise from:

- synergies that arise where Method 1 undertakings within the Group are exposed to stresses in opposite directions. For example, the Phoenix Life Companies are exposed to a rise in credit spreads, whilst the Group pension schemes are exposed to a fall in credit spreads; and
- diversification of risks between Method 1 undertakings that have different risk profiles. For example, the Phoenix Life Companies have a higher risk exposure to persistency and credit risk relative to the pension schemes.

As set out in section E.1.3.3, SCR Group diversification benefits are partially restricted.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.4 Group SCR continued

The £2,477 million SCR for the Method 2 Group reflects the SLAL entity SCR in respect of its own direct risk exposures, but also in respect of a look through to its participations in SLIDAC and SLPF. As Method 2 requires the SCR to be aggregated for each entity without adjustment, the SCR for SLIDAC of £83 million and SLPF of £2 million also have to be aggregated with the SLAL SCR when calculating the Method 2 Group. This results in the SCR for these two entities being recognised twice within the Group SCR as at 31 December 2018, once at the individual entity level and again on a look through basis in the SLAL entity SCR.

Minimum Consolidated Group SCR

The main capital requirement under Solvency II is the SCR. However, there is a lower MCR which for Groups is referred to as the Minimum Consolidated Group SCR ('MGSCR'). This reflects the absolute minimum metric that, if breached, will trigger serious regulatory intervention and potential closure of the Group. The MGSCR represents the sum of the underlying insurance companies' MCRs in respect of the Method 1 part of the Group.

The MGSCR is analysed as follows at 31 December 2018.

Entity – Minimum Capital Requirement	31 December 2018 £m	31 December 2017 £m
PLL	728	724
PLAL	304	398
PAWL	–	3
ALAC	3	41
PA(GI)	3	4
Total MGSCR	**1,038**	**1,170**

Further details regarding the calculation of MCRs are set out in section E.2.3.

Excess of Own Funds over MGSCR

The MGSCR for the PGH plc Method 1 part of the Group is comfortably met with an excess over MGSCR of £3,122 million (2017: £4,070 million), with a ratio of Eligible Own Funds to MGSCR of 401% (2017: 448%). Own Funds eligible to cover the MGSCR do not include the Own Funds of Method 2 entities.

The determination of the Eligible Own Funds available to meet the MGSCR requires the application of specific quantitative limits on the tiering of available capital. Application of these tests as at 31 December 2018 results in a £1,274 million (2017: £795 million) restriction to Tier 2 capital as a result of it exceeding the availability limit 20% of MGSCR.

The MCR for the Method 2 part of the Group is £1,115 million, with Eligible Own Funds of £4,183 million, leaving an excess of Eligible Own Funds over MCR of £3,068 million, which translates to an MCR coverage ratio of 375%.

Analysis of Own Funds eligible to cover MGSCR	Tier 1 Unrestricted £m	Tier 1 Restricted £m	Tier 2 £m	Tier 3 £m	31 December 2018 £m	31 December 2017 £m
Available Own Funds to meet Minimum Group SCR ('MGSCR')	3,449	503	1,482	–	5,434	6,035
Eligibility restrictions MGSCR	–	–	(1,274)	–	(1,274)	(795)
Eligible Own Funds to meet MGSCR	**3,449**	**503**	**208**	**–**	**4,160**	**5,240**
MGSCR					(1,038)	(1,170)
Excess over MGSCR					**3,122**	**4,070**
Ratio of Eligible Own Funds to MGSCR					**401%**	**448%**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.5 Analysis of movement in capital position

The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, Group SCR and Solvency II surplus:

Analysis of movement in Group solvency position (£m)	Note	Own Funds £m	Eligible Own funds after RFF restriction and other restrictions £m	Group SCR £m	Solvency II surplus £m
Opening position at 1 January 2018 (unaudited)		**7,572**	**6,672**	**(4,822)**	**1,850**
Acquired Standard Life Assurance entities as at 31 August 2018	1	5,364	4,202	(2,981)	1,221
Cash consideration (net of rights issue proceeds)	2	(1,021)	(1,021)	–	(1,021)
Expected run-off	3	6	(122)	322	200
With-profit estate distribution	4	(170)	15	–	15
Management actions	5	614	677	(107)	570
Delivery of Standard Life Assurance capital synergies	6	–	–	480	480
New business	7	–	(2)	(149)	(151)
Demographic experience variances (including changes to assumptions)	8	640	346	(256)	90
Economic and other variances on long-term business	9	(162)	(444)	330	(114)
Movement in risk margin and TMTP	10	(276)	(245)	4	(241)
Non-life earnings	11	(167)	(167)	20	(147)
Subordinated debt issuance	12	945	945	–	945
Pension scheme movements	13	(130)	(58)	27	(31)
Financing costs	14	(142)	(142)	–	(142)
External dividends	15	(262)	(262)	–	(262)
Change in Group Own Funds restrictions	16	–	(71)	47	(24)
Closing position at 31 December 2018		**12,811**	**10,323**	**(7,085)**	**3,238**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.5 Analysis of movement in capital position continued

Note	Item	Information
1	**Acquired Standard Life Assurance entities as at 31 August 2018**	The acquisition of the Standard Life insurance subsidiaries increased the Solvency II surplus by £1,221 million. The increase reflects the Solvency II surplus value of entities acquired (excluding capital synergies of £480 million set out below) as at 31 August 2018, stated after allowing for the day 1 impact of vendor separation activities including associated revisions to expense assumptions. All of the movements described below in notes 3-16 thus include the impact of the acquired Standard Life Assurance subsidiaries for the 4 month period post acquisition.
2	**Cash consideration (net of rights issue proceeds)**	Reflects the £(2,994) million consideration to acquire the Standard Life Assurance businesses. The consideration consisted of £1,971 million of cash funded by a fully underwritten rights issue of £950 million, with the remaining balance of £1,021 million funded by a mix of new debt and Phoenix's own resources. SLA plc also took a 19.98% equity stake on completion valued at £1,023 million, based on the share price at 31 August 2018.
3	**Expected run-off**	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £200 million.
4	**With-profit estate distribution**	Distributions of estate to policyholders generally occur from unsupported with-profit funds. The overall impact on surplus is £15 million which reflects the share of the estate distributed to shareholders.
5	**Management actions**	Management actions throughout the year have increased the Solvency II surplus by £570 million. Significant items include further investment in illiquid assets within annuity portfolios, reductions in investment expenses, anticipated costs savings associated with a move to a single outsourcer and continued investment in digitalisation, moving the acquired ALAC business onto the Group's Internal Model and the subsequent Part VII transfer of that business to PLL.
6	**Delivery of Standard Life Assurance capital synergies**	Delivery of capital synergies associated with the acquisition of the Standard Life Assurance businesses, increased the Solvency II surplus by £480 million, primarily as a result of implementing Phoenix's equity and currency hedging strategy in order to protect the economic value of the acquired businesses.
7	**New business**	The impact of new business (after allowance for risk margin and contract boundaries) written during the year decreased the Solvency II surplus by £(151) million. This primarily relates to the capital strain associated with the BPA transactions as detailed in section A.1.5.2, reflecting the assets received on day 1 together with annuities vesting during the period.
8	**Demographic experience variances (including changes to assumptions)**	During the year actuarial assumptions have been reviewed following recent demographic experience. This has resulted in changes in the best estimate assumptions for late retirements, persistency and longevity. Together with the impact of experience variances observed in the year, model and methodology changes and ongoing efficiency improvements implemented in the actuarial models, these factors have resulted in a £90 million increase in the Solvency II surplus.
9	**Economic and other variances on long-term business**	Economic and other variances on long-term business decreased the Solvency II surplus by £(114) million. This included the recognition of a £(55) million provision in respect of a commitment to reduce ongoing charges for workplace pension products, together with the movement in yields and changes arising from the impact of asset trading over the year.
10	**Movement in risk margin and TMTP**	Changes in risk margin and TMTP decreased the overall Solvency II surplus by £(241) million. During the year, SLAL obtained regulatory approval to recalculate the TMTP. The Phoenix Life insurance subsidiaries will not undertake a recalculation until 31 December 2019. The value of risk margin and TMTP as at 31 December 2018 are shown in section D.2.2.
11	**Non-life earnings**	Non-life earnings decreased the Solvency II surplus by £(147) million, principally driven by losses on derivative instruments entered into by the holding companies to hedge exposure to equity risk arising from the Group's acquisition of the Standard Life businesses in the period between announcement and completion of the transaction. These losses were largely offset by gains in the value of future profits recognised in the Own Funds of the Standard Life Assurance businesses acquired (as per note 1 above).
12	**Subordinated debt issuance**	The issuance of the £500 million restricted Tier 1 notes and the Euro 500 million of Tier 2 bonds detailed in section E.1.3.2 increased the Solvency II surplus by £945 million.
13	**Pension scheme movements**	Movements in the Group's pension schemes of £(31) million includes pension scheme contributions paid on those schemes whose Own Funds are restricted in the Group solvency calculation (see section E.1.3.3) and net movements in the ALAC and Pearl Schemes which were in deficit as at 31 December 2018, partly offset by the release of opening restriction on the Pearl Pension Scheme.
14	**Financing costs**	Financing costs decreased Solvency II surplus by £(142) million reflecting interest payments on the subordinated debt instruments as detailed in section E.1.2.3.
15	**External dividends**	Dividends paid to shareholders decreased the Solvency II surplus by £(262) million. This includes the £(169) million detailed in section E.1.3.3 for foreseeable dividends.
16	**Change in Group Own Funds restrictions and impact of other Group adjustments**	The decrease in Solvency II surplus of £(24) million is due to a decrease in restrictions applied to Group Own Funds during the year and other Group consolidation adjustments.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.6 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between the Group's net assets under IFRS and the excess of assets over liabilities under Solvency II.

PGH Group

Description	Section reference	31 December 2018 £m	31 December 2017 £m
Total consolidated equity per IFRS		**5,655**[1]	**3,155**
Valuation differences:			
Assets increase/(decrease):	D.1.1		
Goodwill	D.1.2	(57)	(57)
Intangible assets/Deferred Acquisition Costs	D.1.2	(1,397)	(1,505)
Deferred tax assets	D.1.2	3	4
Property, plant and equipment held for own use	D.1.2	(3)	(2)
Holdings in related undertakings including participations[2]	D.1.2	2,049	(13)
Reinsurance recoverables	D.1.2	(675)	(415)
Receivables (prepayments)	D.1.2	(7)	(8)
Own shares (directly held)	D.1.2	–	2
Total asset valuation differences	D.1.1	**(87)**	**(1,994)**
Liabilities (increase)/decrease:	D.1.2		
Technical provisions	D.2.1	4,551	4,163
Other technical provisions (unallocated surplus)	D.1.2	875	925
Deferred tax liabilities	D.1.2	48	64
Debts owed to credit institutions	D.1.2	(4)	(7)
Payables	D.1.2	(121)	(153)
Subordinated liabilities	D.1.2	(36)	(60)
Total liability valuation differences	**D.3.1**	**5,313**	**4,932**
Excess of assets over liabilities	D.1.2	**10,881**	**6,093**

1 Reflects IFRS total equity attributable to ordinary shareholders of the parent of £5,161 million plus Tier 1 Notes of £494 million as reported in the PGH plc Group Report and Accounts for the year ended 31 December 2018.
2 The adjustment to participations includes the net impact of the adjustment to the assets and liabilities of the Standard Life entities, recognised on a Method 2 basis within the single participations line within the Group Solvency II balance sheet.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position – PLL

The table below summarises the solvency position for PLL at 31 December 2018. The Own Funds QRT S.23.01.01 can be found at Appendix 2.5.

Phoenix Life Limited

Description	Section reference £m	Unrestricted Tier 1 £m	Tier 2 £m	Tier 3 £m	31 December 2018 Total £m	31 December 2017 Total £m
Ordinary share capital	E.1.4.2	69	–	–	69	69
Share premium account related to ordinary share capital	E.1.4.2	1	–	–	1	1
Surplus funds	E.1.4.2	1,563	–	–	1,563	1,337
Reconciliation reserve (pre-availability restrictions)	E.1.4.2	2,547	–	–	2,547	2,185
Deferred tax assets	E.1.4.2	–	–	36	36	15
Excess of assets over liabilities		**4,180**	**–**	**36**	**4,216**	**3,607**
Subordinated liabilities	E.1.4.3	–	217	–	217	225
Total Basic Own Funds		**4,180**	**217**	**36**	**4,433**	**3,832**
Ring Fenced Fund restriction	E.1.4.4	(352)	–	–	(352)	(147)
Eligible Own Funds to meet SCR		**3,828**	**217**	**36**	**4,081**	**3,685**
SCR	E.2.1				(2,911)	(2,897)
Solvency II surplus					**1,170**	**788**
Ratio of Eligible Own Funds to SCR	E.1.4.1				**140%**	**127%**
Shareholder capital coverage ratio	E.1.4.1				**178%**	**151%**
Eligible Own Funds to meet MCR	**E.1.4.1**	**3,828**	**146**	**–**	**3,974**	**3,589**
MCR					(728)	(724)
Excess over MCR	E.1.4.1				**3,246**	**2,865**
Ratio of Eligible Own Funds to MCR	E.1.4.1				**546%**	**496%**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.4 Analysis of solvency position – PLL continued
E.1.4.1 Overview of Solvency position

As at 31 December 2018, the Solvency II surplus over SCR is £1,170 million (2017: £788 million), with a ratio of Eligible Own Funds to SCR of 140% (2017: 127%). The excess of Eligible Own Funds after deductions over the MCR is £3,246 million (2017: £2,865 million), with a ratio of Eligible Own Funds to MCR of 546% (2017: 496%).

94% (2017: 93%) of the Eligible Own Funds after deductions to meet the SCR is unrestricted Tier 1, and is principally comprised of ordinary share capital, share premium, surplus funds and the reconciliation reserve. This includes TMTP which is included in the calculation of Basic Own Funds as Tier 1 capital. The determination of the Eligible Own Funds available to meet the MCR requires the application of specific quantitative limits on the tiering of available capital. Application of these tests as at 31 December 2018 resulted in a £(71) million (2017: £(81) million) restriction to Tier 2 capital as a result of it being in excess of the required 20% of MCR. Tier 3 capital cannot be used to meet the MCR.

Excluding the SCR and Own Funds relating to unsupported with-profit funds, and the Group loan, the Solvency II shareholder capital coverage ratio is 178% as at 31 December 2018 (2017: 151%).

E.1.4.2 Basic Own Funds items

The Basic Own Funds before deductions total £4,433 million (2017: £3,832 million) and comprise ordinary share capital, share premium, surplus funds, a reconciliation reserve, subordinated liabilities and deferred tax assets. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital

The issued and fully paid ordinary share capital of £69 million (2017: £69 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements. The Articles of Association of PLL include the right to cancel and withhold dividends at any time prior to payment.

Share premium account related to ordinary share capital premium

The share premium related to ordinary share capital of £1 million (2017: £1 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements.

Surplus funds

Further details regarding the Solvency II treatment of surplus funds are set out in section E.1.3.1.

The Basic Own Funds include surplus funds of £1,563 million (2017: £1,337 million) which are classified as Tier 1 unrestricted Own Funds.

Reconciliation reserve

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. The reconciliation reserve may be subject to potential volatility and further details regarding the impact of various sensitivities on the excess of assets over liabilities which forms part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

Phoenix Life Limited

Reconciliation Reserve	31 December 2018 £m	31 December 2017 £m
Excess of assets over liabilities	4,216	3,607
Deduct other Basic Own Funds items		
Ordinary share capital	(69)	(69)
Share premium account related to ordinary share capital	(1)	(1)
Surplus funds	(1,563)	(1,337)
Deferred tax asset – Tier 3	(36)	(15)
Reconciliation reserve pre availability restrictions	**2,547**	**2,185**
Ring Fenced Fund restriction	(352)	(147)
Reconciliation reserve total (as shown on Own Funds QRT)	**2,195**	**2,038**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.4 Analysis of solvency position – PLL continued
E.1.4.2 Basic Own Funds continued

Deferred tax assets

Deferred tax assets of £36 million (2017: £15 million) are included as Tier 3 Own Funds. The increase of £21 million during the year is principally due to an increase in the deferred tax asset on expenses carried forward. Further details regarding the composition of the deferred tax asset is included in section D.1.3.

E.1.4.3 Subordinated liabilities

Further details regarding the PLL subordinated liabilities are set out in section E.1.3.2 (note A).

As outlined in section D.3, the subordinated loan notes are recognised at their economic value after excluding the impact of changes in OCS, which results in £217 million contributing to Tier 2 Group Own Funds as at 31 December 2018 (2017: £225 million). The movement during the year arises from revaluation of £8 million (2017: £25 million). There have been no further changes to the subordinated liabilities during the year.

As the subordinated liability is classified as Tier 2 at 31 December 2018, further details regarding the principal loss absorbency mechanism complying with Article 71(1) (e) of the Commission Delegated Regulation (EU) 2015/35 have not been included as this Article relates to paid-in subordinated liabilities classified as Tier 1 only.

E.1.4.4 Availability restrictions

As shown in the reconciliation reserve in E.1.4.2, there is a deduction to Own Funds of £352 million (2017: £147 million) in respect of a RFF restriction. Further details regarding the Solvency II treatment for this restriction are included in section E.1.3.3.

The total excess of assets over liabilities for the RFFs (which are subject to restriction) and the Matching Adjustment portfolio are £1,839 million (2017: £1,782 million), and this is restricted by the £352 million (2017: £147 million) RFF restriction. There are no restrictions to the Matching Adjustment portfolio at 31 December 2018 (2017: none).

E.1.4.5 Analysis of movement in capital position

The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, SCR and Solvency II surplus.

Analysis of movement in solvency position (£m)	Note	Own funds £m	Eligible Own funds after RFF restriction £m	SCR £m	Solvency II surplus £m
Opening position at 1 January 2018		**3,832**	**3,685**	**(2,897)**	**788**
Expected run off	1	–	(79)	181	102
With profit estate distribution	2	(99)	9	–	9
Management actions	3	592	592	(104)	488
New business	4	(38)	(38)	(91)	(129)
Demographic experience variances (including changes to assumptions)	5	259	72	(75)	(3)
Economic and other variances on long-term business	6	(56)	(135)	72	(63)
Movement in risk margin and TMTP	7	(37)	(5)	5	–
Financing costs	8	(15)	(15)	–	(15)
Intragroup capital flows	9	(5)	(5)	(2)	(7)
Closing position at 31 December 2018		**4,433**	**4,081**	**(2,911)**	**1,170**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.4 Analysis of solvency position – PLL continued
E.1.4.5 Analysis of movement in capital position continued

Note	Item	Information
1	**Expected run-off**	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £102 million.
2	**With-profit estate distribution**	Distributions of estate to policyholders generally occur from unsupported with-profit funds. The overall impact on surplus is £9 million and reflects the share of the estate distributed to shareholders.
3	**Management actions**	Management actions throughout the year have increased the Solvency II surplus by £488 million. Significant items include further investment in illiquid assets within annuity portfolios, reductions in investment expenses and anticipated cost savings associated with a move to a single outsourcer.
4	**New business**	The impact of new business written during the year reduced the surplus by £(129) million. This primarily relates to capital strain associated with the BPA transactions as detailed in section A.1.5.2, and reflects the assets received on day one.
5	**Demographic experience variances (including changes to assumptions)**	During the year actuarial assumptions have been reviewed following recent demographic experience. The most notable change is to the longevity assumptions the update of which has increased the Solvency II surplus by £40 million. Changes in persistency and mortality assumptions also impacted the surplus during the year. Coupled with experience variances observed in the year, model and methodology changes and ongoing efficiency improvements implemented in the actuarial models overall this has resulted in a £(3) million decrease in the Solvency II surplus.
6	**Economic and other variances on long-term business**	Economic and other variances on long-term business decreased the Solvency II surplus by £(63) million over the year primarily as a result of the recognition of a £(55) million provision in respect of a commitment to reduce ongoing charges for workplace pension products, together with the impact of movements in yields, changes arising from the impact of asset trading over the year and the impact on the entity of the Part VII transfer of business from ALAC.
7	**Movement in risk margin and TMTP**	Changes in the risk margin of £79 million and TMTP of £(79) million offset and therefore there was no impact on the overall Solvency II surplus. The change in TMTP is as a result of the 1/16th run off as detailed in section D.2.7.2. The value of risk margin and TMTP as at 31 December 2018 are shown in section D.2.2.
8	**Financing costs**	Financing costs decreased Solvency II surplus by £(15) million reflecting interest payments on the PLL subordinated notes detailed in section D.1.
9	**Intra-group capital flows**	Intra-group capital flows decreased the Solvency II surplus by £(7) million including the impact of dividends of £(110) million paid during the year to the Company's parent, PeLHL. This was partly offset by a capital contribution received from the Company's parent of £101 million, representing amounts required to support the BPA transactions detailed in A.1.5.2.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.4 Analysis of solvency position – PLL continued
E.1.4.6 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between PLL's net assets under IFRS and the excess of assets over liabilities under Solvency II.

Description	Section reference	31 Dec 2018 £m	31 Dec 2017 £m
Total equity per IFRS		**1,255**	**783**
Valuation differences:			
Assets increase/(decrease):			
Intangible assets/Deferred Acquisition Costs	D.1.2	(156)	(167)
Reinsurance recoverables	D.1.2	(667)	(97)
Receivables (prepayments)	D.1.2	(66)	(73)
Deferred tax assets	D.1.2	–	(1)
Total asset valuation differences		**(889)**	**(338)**
Liabilities (increase)/decrease:			
Technical provisions	D.2.2	3,492	2,791
Other technical provisions (unallocated surplus)	D.2.2	577	599
Deferred tax liabilities	D.1.2	(213)	(217)
Payables (deferred income)	D.1.2	11	14
Loan revaluation	D.1.2	(17)	(25)
Total liability valuation differences		**3,850**	**3,162**
Excess of assets over liabilities	D.1.2	**4,216**	**3,607**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.5 Analysis of solvency position – PLAL

The table below summarises the solvency position for PLAL as at 31 December 2018. The Own Funds QRT S.23.01.01 can be found at Appendix 3.5.

Phoenix Life Assurance Limited

Description	Section reference	Unrestricted Tier 1 £m	Tier 2 £m	Tier 3 £m	31 December 2018 Total £m	31 December 2017 Total £m
Ordinary share capital	E.1.5.2	342	–	–	342	342
Share premium account related to ordinary share capital	E.1.5.2	41	–	–	41	41
Surplus funds	E.1.5.2	947	–	–	947	949
Reconciliation reserve (pre-availability restrictions)	E.1.5.2	676	–	–	676	624
Deferred tax assets	E.1.5.2	–	–	8	8	18
Excess of assets over liabilities		**2,006**	**–**	**8**	**2,014**	**1,974**
Subordinated liabilities	E.1.5.3	–	–	–	–	250
Total Basic and Available Own Funds		**2,006**	**–**	**8**	**2,014**	**2,224**
Ring Fenced Fund restriction	E.1.5.4	(416)	–	–	(416)	(269)
Eligible Own Funds to meet SCR		**1,590**	**–**	**8**	**1,598**	**1,955**
SCR	E.2.1				(1,214)	(1,590)
Solvency II surplus					**384**	**365**
Ratio of Eligible Own Funds to SCR	E.1.5.1				**132%**	**123%**
Shareholder capital coverage ratio	E.1.5.1				**156%**	**151%**
Eligible Own Funds to meet MCR	**E.1.5.1**	**1,590**	**–**	**–**	**1,590**	**1,767**
MCR					(303)	(398)
Excess over MCR	E.1.5.1				**1,287**	**1,369**
Ratio of Eligible Own Funds to MCR	E.1.5.1				**524%**	**445%**

E.1.5.1 Overview of Solvency position

As at 31 December 2018, the Solvency II surplus over SCR is £384 million (2017: £365 million), with a ratio of Eligible Own Funds to SCR of 132% (2017: 123%). The excess of Eligible Own Funds after deductions over the MCR is £1,287 million (2017: £1,369 million), with a ratio of Eligible Own Funds to MCR of 524% (2017: 445%). On 16 April 2018 the Company repaid the Tier 2 subordinated debt of £250 million to Phoenix Life Holdings Limited ('PLHL') and received repayment of the outstanding Group loan balance of £198 million from PGH2, the Company's immediate parent.

99.5% (2017: 86%) of the Eligible Own Funds after deductions to meet SCR is unrestricted Tier 1, and is principally comprised of ordinary share capital, share premium, surplus funds and the reconciliation reserve. This includes TMTP which is included in the calculation of Basic Own Funds as Tier 1 capital. The determination of the Eligible Own Funds available to meet the MCR requires the application of specific quantitative limits on the tiering of available capital. Application of these tests as at 31 December 2018 results in no restriction (2017: £170 million) to Tier 2 capital given this has now been repaid. The restriction in 2017 was as a result of it being in excess of the required 20% of MCR. Tier 3 capital cannot be used to meet the MCR.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.5 Analysis of solvency position – PLAL continued

E.1.5.2 Basic own Funds items

The Basic Own Funds before deductions total £2,014 million (2017: £2,224 million) and comprise ordinary share capital, share premium, surplus funds, a reconciliation reserve, and net deferred tax assets. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital

The issued and fully paid ordinary share capital of £342 million (2017: £342 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements. The Articles of Association of PLAL include the right to cancel and withhold dividends at any time prior to payment.

Share premium account related to ordinary share capital premium

The share premium related to ordinary share capital of £41 million (2017: £41 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements.

Surplus funds

The Basic Own Funds include surplus funds of £947 million (2017: £949 million) which are classified as Tier 1 unrestricted Own Funds. Further details regarding the Solvency II treatment of surplus funds are set out in section E.1.3.1.

Reconciliation reserve

The reconciliation reserve is treated as Tier 1 Own Funds. The reconciliation reserve may be subject to potential volatility and further details regarding the impact of various sensitivities on the excess of assets over liabilities which form part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

Phoenix Life Assurance Limited

Reconciliation Reserve	31 December 2018 £m	31 December 2017 £m
Excess of assets over liabilities	2,014	1,974
Deduct other Basic Own Funds items		
Ordinary share capital	(342)	(342)
Share premium account related to ordinary share capital	(41)	(41)
Surplus funds	(947)	(949)
Deferred tax asset – Tier 3	(8)	(18)
Reconciliation reserve pre availability restrictions	**676**	**624**
Ring Fenced Fund restriction	(416)	(269)
Reconciliation reserve total (as shown on Own Funds QRT)	**260**	**355**

Deferred tax assets

Deferred tax assets of £8 million (2017: £18 million) are included as Tier 3 Own Funds. The decrease of £10 million during the year is due to a decrease in the deferred tax asset on trading losses. Further details regarding the composition of the deferred tax asset is included in section D.1.3.

E.1.5.3 Subordinated liabilities

PLAL received a subordinated loan facility of £250 million from a fellow Group company, PLHL, on 2 September 2009. As set out above in section E.1.5.1 this has now been fully repaid.

Under the regulations, the loan was treated as Tier 2 Own Funds.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.5 Analysis of solvency position – PLAL continued
E.1.5.4 Availability restrictions

As shown in the reconciliation reserve table in E.1.5.2, there is a deduction to Own Funds of £(416) million (2017: £(269) million) in respect of RFF restriction. Further details regarding the Solvency II treatment for this restriction are included in section E.1.3.3.

The total excess of assets over liabilities for the RFFs (which are subject to restriction) and the Matching Adjustment portfolio are £1,150 million (2017: £1,199 million) and this is restricted by the £(416) million (2017: £(269) million) RFF restriction. There are no restrictions to the Matching Adjustment portfolio at 31 December 2018 (2017: none).

E.1.5.5 Analysis of movement in capital position

The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, SCR and Solvency II surplus:

Analysis of movement in solvency position (£m)	Note £m	Own funds £m	Eligible Own funds after RFF restriction £m	SCR £m	Solvency II surplus £m
Opening position at 1 January 2018		**2,224**	**1,955**	**(1,590)**	**365**
Expected run off	1	–	(50)	92	42
With profit estate distribution	2	(52)	6	–	6
Management actions	3	44	44	(8)	36
New business	4	4	4	(24)	(20)
Demographic experience variances (including changes to assumptions)	5	118	45	(13)	32
Economic and other variances on long-term business	6	(31)	(118)	134	16
Movement in risk margin and TMTP	7	(41)	(36)	(3)	(39)
Financing costs	8	(2)	(2)	2	–
Intragroup capital flows	9	(250)	(250)	196	(54)
Closing position at 31 December 2018		**2,014**	**1,598**	**(1,214)**	**384**

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.5 Analysis of solvency position – PLAL continued

E.1.5.5 Analysis of movement in capital position continued

Note	Item	Information
1	**Expected run-off**	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £42 million.
2	**With-profit estate distribution**	Distributions of estate to policyholders generally occur from unsupported with-profit funds. The overall impact on surplus is £6 million and reflects the share of the estate distributed to shareholders.
3	**Management actions**	Management actions throughout the year have increased the Solvency II surplus by £36 million. Significant items include reductions in investment expenses and anticipated cost savings associated with a move to a single outsourcer.
4	**New business**	The impact of new business written during the year reduced the surplus by £(20) million, reflecting the day 1 capital strain associated with vesting annuities during the period.
5	**Demographic experience variances (including changes to assumptions)**	During the year actuarial assumptions have been reviewed following recent demographic experience. This has resulted in changes in the best estimate assumptions for late retirements, persistency and longevity. Coupled with experience variances observed in the year, model and methodology changes implemented in the actuarial models and expense experience variance this has resulted in an overall £32 million increase in the Solvency II surplus.
6	**Economic and other variances on long-term business**	Economic variances on long-term business increased the Solvency II surplus by £16 million over the year primarily as a result of movements in yields.
7	**Movement in risk margin and TMTP**	Changes in the risk margin of £1 million and TMTP of £(40) million decreased the overall Solvency II surplus by £(39) million. The change in TMTP is as a result of the 1/16th run off as detailed in section D.2.7.2. The value of risk margin and TMTP as at 31 December 2018 are shown in section D.2.2.
8	**Intra-group capital flows**	Intra-group capital flows decreased the Solvency II surplus by £(54) million. During the year the £250 million subordinated debt was repaid to PLHL. An element of SCR was held in relation to the debt and has also been released.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.5 Analysis of solvency position – PLAL continued

E.1.5.6 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between PLAL's net assets under IFRS and the excess of assets over liabilities under Solvency II.

Phoenix Life Assurance Limited

Description	Section reference	31 Dec 2018 £m	31 Dec 2017 £m
Total equity per IFRS		**754**	**670**
Valuation differences:			
Assets increase/(decrease):			
Intangible assets	D.1.2	(11)	(11)
Reinsurance recoverables	D.1.2	(37)	(42)
Receivables (prepayments)	D.1.2	(43)	(45)
Total asset valuation differences		**(91)**	**(98)**
Liabilities (increase)/decrease:			
Technical provisions	D.2.2	1,118	1,159
Other technical provisions (unallocated surplus)	D.2.2	298	320
Deferred tax liabilities	D.1.2	(60)	(67)
Debts owed to credit institutions	D.1.2	(5)	(10)
Total liability valuation differences		**1,351**	**1,402**
Excess of assets over liabilities	D.1.2	**2,014**	**1,974**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.6 Analysis of solvency position – ALAC

The table below summarises the solvency position for ALAC as at 31 December 2018. The Own Funds QRT S.23.01.01 can be found in Appendix 4.3.

Abbey Life Assurance Company Limited

Description	31 December 2018 Total £m	31 December 2017 Total £m
Ordinary share capital	31	31
Share premium account related to ordinary share capital	–	254
Reconciliation reserve	(27)	193
Deferred tax assets	–	14
Basic, Available and Eligible Own Funds to meet SCR	**4**	**492**
SCR	–	(91)
Solvency II surplus	**4**	**401**
Ratio of Eligible Own Funds to SCR	**n/a**	**540%**
Eligible Own Funds to meet MCR	**4**	**479**
MCR	(3)	(41)
Excess over MCR	**1**	**438**
Ratio of Eligible Own Funds to MCR	**122%**	**1,167%**

E.1.6.1 Overview of Solvency position

As at 31 December 2018, the Solvency II surplus over SCR is £4 million (2017: £401 million). The excess of Eligible Own Funds after deductions over the MCR is £1 million (2017: £438 million), with a ratio of Eligible Own Funds to MCR of 122% (2017: 1,167%). ALAC's Own Funds consists entirely of Tier 1 – unrestricted Own Fund items, including ordinary share capital and reconciliation reserve. There are no Tier 1 – restricted, Tier 2 or Tier 3 Own Fund items. ALAC's deferred tax assets decreased during the year as a result of the Part VII transfer to PLL.

There are no deductions for restricted assets in respect of RFFs, Matching Adjustment portfolios, encumbrances or foreseeable dividends.

The movement in ALAC's capital position over the period is largely due to the Part VII of all its business into PLL effective 31 December 2018. A £450 million cash dividend was also paid to Group during the year.

There are no differences between ALAC's equity under IFRS and the excess of assets over liabilities under Solvency II.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.7 Analysis of solvency position – PA(GI) (unaudited)

The table below summarises the solvency position for PA(GI) as at 31 December 2018. The Own Funds QRT S.23.01.01 is included in Appendix 5.3.

	Description	31 December 2018 Total £m	31 December 2017 Total £m
PA (GI) Limited	Ordinary share capital	3	3
	Reconciliation reserve	64	61
	Basic, Available and Eligible Own Funds to meet SCR	**67**	**64**
	SCR	(6)	(16)
	Solvency II surplus	**61**	**48**
	Ratio of Eligible Own Funds to SCR	**1,202%**	**405%**
	Eligible Own Funds to meet MCR	**67**	**64**
	MCR	(3)	(4)
	Excess over MCR	**64**	**60**
	Ratio of Eligible Own Funds to MCR	**2,023%**	**1,621%**

As at 31 December 2018, the Solvency II surplus over the SCR is £61 million (2017: £48 million), with a ratio of Eligible Own Funds to SCR of 1,202% (2017: 405%). The excess of Eligible Own Funds after deductions over the MCR is £64 million (2017: £60 million), with a ratio of Eligible Own Funds to MCR of 2,023% (2017: 1,621%).

PA(GI)'s Own Funds consists entirely of Tier 1 – unrestricted Own Fund items, including ordinary share capital and reconciliation reserve. There are no Tier 1 – restricted, Tier 2 or Tier 3 Own Fund items.

There are no deductions for restricted assets in respect of RFFs, Matching Adjustment portfolios, encumbrances or foreseeable dividends.

The increase in the Solvency II surplus of £13 million reflects an increase in Eligible Own Funds of £3 million and a reduction in the SCR of £10 million. The movement in Eligible Own Funds reflects a decrease of £9 million in the provision for costs for compensation relating to historic creditor insurance underwritten by PA(GI) less £6 million which is attributable to third parties. The SCR reduced due to the run-off of the compensation payable by PA(GI) and the approaching FCA deadline of 29 August 2019 for consumers to make their creditor insurance complaints.

There are no differences between PA(GI)'s equity under IFRS and the excess of assets over liabilities under Solvency II.

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Solvency Capital Requirement

The insurance subsidiaries and the Group's SCR at 31 December 2018 is presented below. Under the Group's Internal Model, ALAC holds no SCR as it has no material risk remaining following the Part VII transfer of business to PLL.

Analysis of SCR – 31 December 2018	Note	PLL £m	PLAL £m	PA(GI) £m	Other Group entities £m	Group adjustments £m	SLAL[1] £m	SLIDAC £m	SLPF £m	PGH Group partial Internal Model £m
Risk categories										
Underwriting risk (i.e. insurance risk)	1	1,499	757	–	150	(62)	–	–	–	2,344
Market risk	2	1,169	362	–	503	(309)	–	–	–	1,725
Credit risk	3	1,183	495	–	121	(53)	–	–	–	1,746
Liquidity risk	4	–	–	–	–	–	–	–	–	–
Operational risk	5	511	179	6	72	(23)	–	–	–	745
Other risks	6	86	13	–	165	–	–	–	–	264
Total undiversified SCR		**4,448**	**1,806**	**6**	**1,011**	**(447)**	**–**	**–**	**–**	**6,824**
Diversification benefits	7	(1,377)	(531)	–	(133)	(168)	–	–	–	(2,209)
Non-linearity	8	2	–	–	–	–	–	–	–	2
Management actions	9	(128)	(15)	–	–	–	–	–	–	(143)
Loss absorbing capacity of deferred tax ('LACDT')	10	(232)	(46)	–	–	8	–	–	–	(270)
Subsidiary risk capital	11	5	–	–	213	(2)	–	–	–	216
Consolidation adjustments	12	193	–	–	–	(90)	–	–	–	103
Total SCR (Method 1 entities)		**2,911**	**1,214**	**6**	**1,091**	**(700)**	**–**	**–**	**–**	**4,523**
Method 2 entities		–	–	–	–	–	2,477	83	2	2,562
Group SCR (Method 1 and 2)		**2,911**	**1,214**	**6**	**1,091**	**(700)**	**2,477**	**83**	**2**	**7,085**

The final SCR is still subject to supervisory assessment. There are no capital add-ons and the Group has not applied to use undertaking specific parameters when calculating the Standard Formula SCR for entities which are outside of the scope of the Phoenix and Standard Life Internal Models.

1 SLAL SCR reflects SLAL entity SCR in respect of its own direct risk exposures, but also in respect of a look through to its participations in SLIDAC and SLPF. .

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.1 Solvency Capital Requirement (unaudited) continued

The definition of each of the risks are included in the table below. The components and sources of each of the risks and, of the methods used to assess, measure and monitor each of the risks are included in section C. Further details of the risks relevant to the acquired Standard Life insurance subsidiaries are included within section E.2 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

Note	Risk module	Information
1	**Underwriting risk**	Underwriting risk (i.e. insurance risk) is the risk that the frequency and severity of insured events may be worse than expected. The main sources of insurance risk are mortality risk, longevity risk, morbidity risk, expense risk and lapse risk. More details on these risks are included in section C.1.
2	**Market risk**	Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market influences. Market risk comprises interest rate risk, currency risk and other price risk (comprising equity risk, property risk, inflation risk, gilt-swap spread risk and alternative asset class risk). More details on these risks are included in section C.2.
3	**Credit risk**	Credit risk is the risk that a party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities. The principal sources of credit risk for the Group and its insurance subsidiaries include spread risk, investment counterparty risk, reinsurance counterparty risk, outsourcer default risk and stock-lending risk. More details on these risks are provided in section C.3.
4	**Liquidity risk**	Liquidity risk is defined as the failure of the Group or its insurance subsidiaries to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of its subsidiaries. The Group's Life Companies have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. More details on these risks are provided in section C.4.
5	**Operational risk**	Operational risk is the risk of reduction in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events. Details of the sources of operational risk are provided in section C.5.
6	**Other risks**	Other risks comprise financial soundness risk, customer risk and strategic risk. Further details are included in section C.6.
7	**Diversification benefits**	Diversification arises when the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not perfectly correlated. Diversification benefits are determined using a correlation matrix[1].
8	**Non-linearity**	Non-linearity arises when there is interdependency between risks, such that the combined impact of two or more risks occurring together does not equal the sum of the impacts from each of the risks occurring in isolation.
9	**Management actions**	Management actions primarily apply to with-profit funds. Such actions include reducing reversionary and terminal bonus rates, removing past conditional estate distributions, and increasing asset share/guarantee charges under stressed conditions. The management actions assumed for each fund are consistent with the fund's PPFM.
10	**Loss absorbing capacity of deferred tax ('LACDT')**	The LACDT adjustment represents the change in value of deferred tax assets and liabilities which would result from a loss in Own Funds equal to the SCR (before LACDT adjustment).
11	**Subsidiary risk capital**	Subsidiary risk capital primarily relates to PUTM, a subsidiary of PLL – see section A.1.2.2.
12	**Consolidation adjustments**	Consolidation adjustments represent a range of adjustments which are applied to the post-diversified SCR when aggregating to PGH Group level.
13	**Method 2 entities**	The aggregated SCRs for SLAL, SLIDAC and SLPF. As a result of applying method 2 SLAL recognises SCR in respect of its own direct risk exposures, but also in respect of a look through to its participations in SLIDAC and SLPF.

1 SLAL currently determines diversification benefits using a full risk distribution under the Standard Life Internal Model. The methodology for calculating diversification benefits across the Group is expected to be aligned as part of Internal Model harmonisation activities.

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.2 Changes in SCR

The material changes in the SCR and reasons thereof are set out in section E.1.3.

E.2.3 Minimum Consolidated Group SCR

In accordance with the regulations, the MCR for the Group is the sum of the MCR for all the subsidiaries consolidated under Method 1. Whilst the Standard Life insurance subsidiaries will calculate an MCR, as these entities are included in the Group solvency calculation on a Method 2 basis, they will not be aggregated as part of the MGSCR.

As set out in section E.1.2.5, the Group's MCR at 31 December 2018 is £1,038 million (2017: £1,170 million).

The MCR for each insurance subsidiary is calculated according to a formula prescribed by the regulations and is subject to a floor of 25% of the SCR or EUR 3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to the technical provisions and capital at risk as at 31 December 2018.

The components of the overall calculation of the MCR as at 31 December 2018 are:

Calculation of MCR – 31 December 2018	PLL £m	PLAL £m	PA (GI) £m	ALAC [1] £m	PGH £m
MCR before the application of floors and caps	309	155	–	–	
MCR cap (45% of SCR)	1,310	546	7	n/a	
MCR floor (higher of 25% of SCR or EUR 3.7m)	728	304	3	3	
MCR (post application of floors and caps)	**728**	**304**	**3**	**3**	**1,038**

The changes in MCR during the reporting period are set out below:

Analysis of change in MCR	PLL £m	PLAL £m	PA (GI) £m	PAWL £m	ALAC £m	PGH £m
1 January 2018	724	398	4	3	41	1,170
31 December 2018	728	304	3	–	3	1,038
Movement in MCR	**4**	**(94)**	**(1)**	**(3)**	**(38)**	**(132)**

1 ALAC has zero SCR under the Internal Model, as it does not retain any material risks following the Part VII transfer into PLL. Therefore the MCR cap of 45% of SCR does not apply, and the ALAC MCR is based on the absolute minimum of €3.7million as at 31 December 2018.

The MCR at both the current and previous reporting periods is primarily based on the floor prescribed by Solvency II of 25% of Life Companies' SCR; hence the change in SCR is the driver for the changes in MCR.

PAWL was deauthorised on 9 March 2018, and therefore it no longer holds MCR.

Further details regarding the MCR for the Standard Life insurance subsidiaries can be found in section E.2 of the SLAL, SLIDAC and SLPF SFCRs for the year ended 31 December 2018.

CAPITAL MANAGEMENT CONTINUED

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

SLIDAC is the only entity in the Group which calculates it's SCR in accordance with the Standard Formula.

The UK has not implemented the member state option in the regulations to permit the use of this sub-module for the Standard Formula calculation, and therefore neither the Group nor any of the Life Companies use the duration-based equity risk sub-module in the calculation of the SCR.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

This section outlines the purpose of the Internal Model, its scope, methodology and assumptions, key differences between Standard Formula and Internal Model, and the nature and appropriateness of data used.

E.4.1 Scope of Internal Model

Coverage

In December 2015, the PLHL Group was granted the PRA's approval for use of its Phoenix Internal Model to assess Solvency Capital Requirements. The scope of the Phoenix Internal Model has subsequently been extended to cover the acquired AXA Wealth and Abbey Life businesses, together with all entities above PLHL in the Group structure.

Following the acquisition of the Standard Life Assurance businesses in August 2018, the Group now uses a partial Internal Model to calculate it capital requirements. It comprises the following:

- a Phoenix Internal Model covering all the pre-acquisition Phoenix entities;
- a Standard Life Internal Model covering SLAL and SLPF; and
- a Standard Formula assessment of the capital requirements of the Irish entity, SLIDAC,

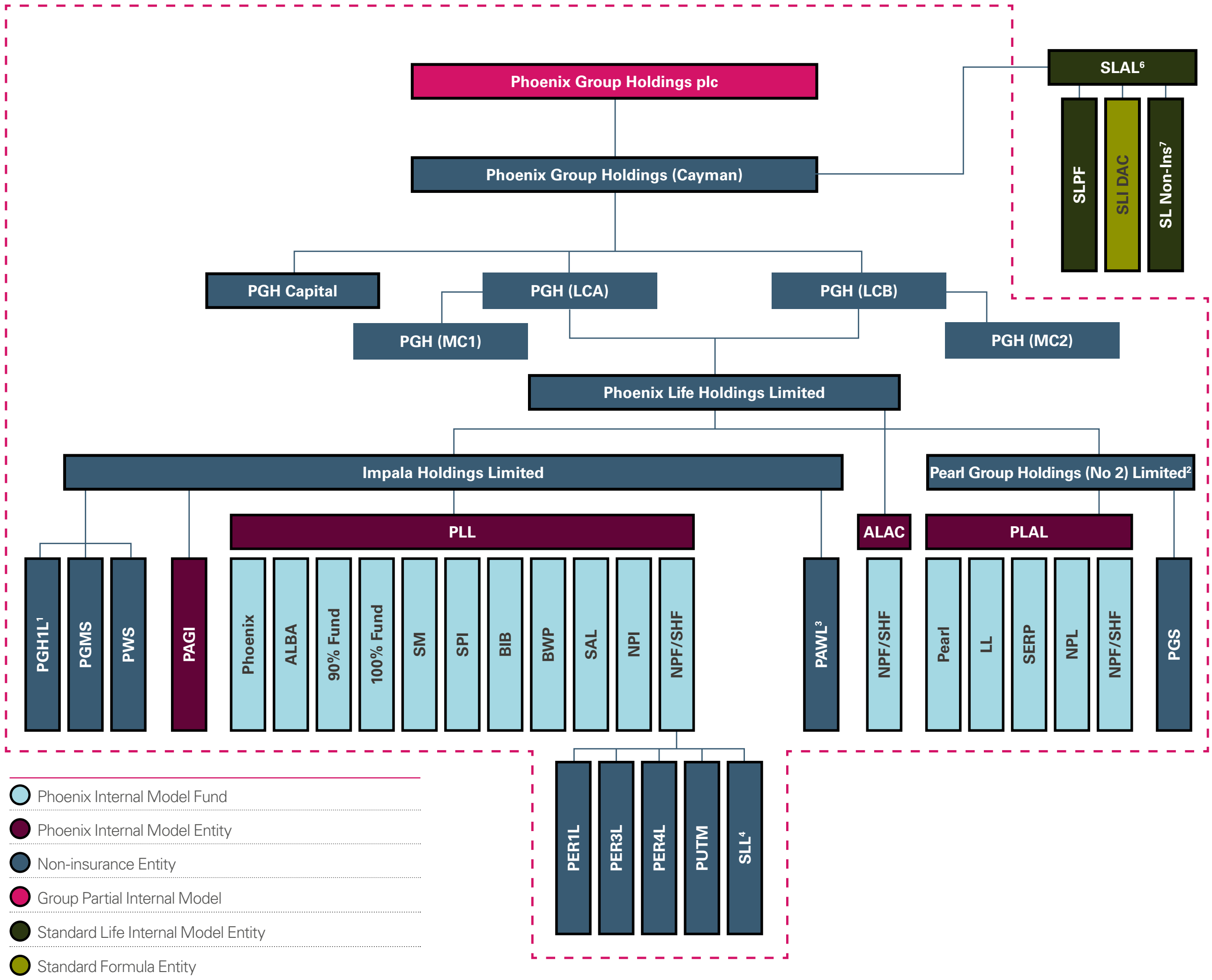
A harmonisation programme to create a single Internal Model for the entire Group is ongoing.

The diagram below sets out a simplified view of the current PGH Group structure, which details the entities and funds within the scope of the Internal Model as at 31 December 2018. As part of the Group's onshoring programme, a new UK registered holding company has been created 'PGH plc' and the Internal Model scope has been extended to include this new entity. The diagram reflects this change in scope.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.1 Scope of Internal Model continued



- Phoenix Internal Model Fund
- Phoenix Internal Model Entity
- Non-insurance Entity
- Group Partial Internal Model
- Standard Life Internal Model Entity
- Standard Formula Entity
- Major Business Unit
- Internal Model Scope

1 PGH1L is the sponsoring employer of the PGL pension scheme.
2 PGH2L is the sponsoring employer of the Pearl pension scheme.
3 PAWL has been de-authorised following a Part VII
4 SLL provides distribution services for SunLife products.
5 PeLHL (not shown) is the sponsor of the ALAC pension scheme.
6 Standard Life (SL) entities assessed using SL internal model & incorporated into Phoenix Group SCR using consolidation Method 2. SLIDAC is currently a Standard Formula entity.
7 Standard Life (SL) entities assessed using SL internal model

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.1 Scope of Internal Model continued

Risk categories

A key element of the Group's risk strategy is to ensure that the Group has a robust understanding of the risks it faces. This is achieved through regular monitoring and reporting of risks. Further details are included in section B.3.

All key risks (i.e., those forming part of the Standard Formula and risks specific to the insurance subsidiaries and Group) in the risk universe are within the scope of the Phoenix Group partial Internal Model.

Capital is held against all risks within the risk universe, unless:

- the risk is one that would not be expected to impact Own Funds; or
- exposure to the risk is not significant; or
- there is a dedicated risk management process in place to ensure that the risk exposure remains immaterial or is unlikely to arise at all.

Justification for not holding capital for any risks within the risk universe is documented and approved by senior management. This position is re-assessed on a regular cycle or sooner if specified trigger events have occurred.

E.4.2 Uses of the Internal Model

The Phoenix Group Partial Internal Model is widely used and plays an important role in the system of governance (in particular, the risk management system), decision-making, solvency capital assessment and allocation of capital throughout the Group.

Internal Model outputs (principally the balance sheet and stress and scenario analysis) are used to inform decisions which impact the risk profile or capital requirements. These decisions include, but are not limited to:

Setting risk appetite

As outlined in section B.3, the Group sets its risk appetite to manage risks, and this is reviewed annually. Risk appetite establishes the boundaries within which the Group is willing to operate, and the amount of risk that it wishes to accept.

The risk appetite statement is regularly reviewed through scenario analysis which covers a range of material risks from the risk universe. Results are regularly presented to the Life and Group Boards.

Informing risk reporting

The Group's risk reporting framework summarises the risk profile of the Group and is regularly presented to management committees and the Boards. Each report is structured around the risk universe and summarises key risk management information, including the risk appetite dashboard and a breakdown of risk capital by individual risk categories.

Setting capital management policy

Capital management policies are set by the Group and each regulated Life Company, in order to provide an additional level of solvency protection over the SCR. Capital policies are set by reference to risk appetite scenarios and reviewed annually.

Decision-making in respect of Group funding

Outputs from the Internal Model are used as the basis for recommendations regarding the release of cash from the Life Companies, for payment of dividends to shareholders or to meet other obligations within the Group.

Informing decisions on significant projects and strategic activity

When determining the viability of a project (for example, a funds merger or acquisition) or a change in strategy, the impacts on financial metrics will be a key consideration which utilises outputs from the Internal Model.

Establishing AOP

The AOP is used to review the expected financial performance of the Group and to ensure it remains aligned with the overall strategy and risk appetite. This involves the production of financial projections using a central set of assumptions. Stress and scenario testing is completed in line with the Group's Risk Appetite Framework. Further details on stress and scenario testing are included in section C.

Setting investment strategy

Outputs from the Internal Model are used for setting investment strategy. The investment of assets is a core activity that allows the Group to enhance value and meet policyholder expectations. The Group generates value through investing in a range of asset classes. Policies are in place that set out the strategy to be followed to manage the various investment risks.

Setting assumptions

Assumptions are required to be set for the Group's modelled risks. These assumptions are derived from a range of sources, which include Internal Model outputs, experience analysis, industry benchmarking and expert judgement. Setting of assumptions is subject to extensive governance review and sign-off.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.2 Uses of the Internal Model continued

Other uses

In addition to the above uses, Internal Model outputs are also used in the production of outputs for external reporting, tax planning, and setting the Group's remuneration policy.

E.4.3 Partial Internal Model

As described in section E.4.1 above, the Group operated under a partial Internal Model at 31 December 2018.

The partial Internal Model SCR calculation for the Group combines the Phoenix Internal Model SCR component with the Standard Life Internal Model SCR component and the SLIDAC Standard Formula component. The approach involves summing the SCR for Standard Life (and its subsidiaries) and the SCR for the rest of the Group, without allowing for any diversification between these two components.

E.4.4 Internal Model stress calibration

This section details the approach to Internal Model stress calibration under the Phoenix Internal Model. Similar details on the Standard Life Internal Model can be found within section E.4 of the SLAL and SLPF SFCRs for the year ended 31 December 2018.

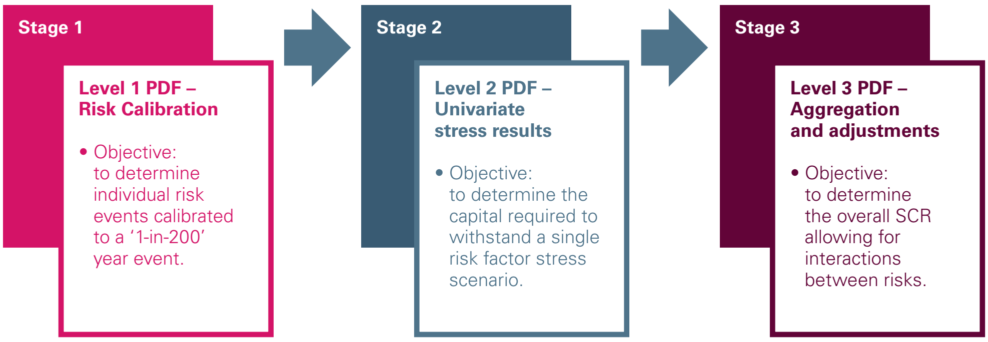
Overview

A key input required to calculate the SCR is the Probability Distribution Forecast ('PDF') for a particular risk or group of risks. The PDF determines the range of possible outcomes for the risk(s) being modelled and the associated probability attached to each outcome.

The calculation of the Internal Model SCR requires an assessment of the capital required in a 1-in-200 one-year stress event and also for stress events with different likelihoods. PDFs are utilised for this assessment. Phoenix methodology requires the PDF to be determined at three different levels, namely the Level 1, Level 2 and Level 3 PDFs.

The Phoenix Internal Model applies a univariate approach to assess the impact of individual risk events, where the financial impact of each individual risk event (or stress) is combined with the financial impact of other risks through the use of a correlation matrix. Further adjustments for the impact of combination risks, management actions and tax are also made.

Further details on the Level 1, 2 and 3 PDFs are summarised below:



Stage 1 – Level 1 PDF – Risk calibration

The first stage in the calculation of capital requirements is the calibration of all risk factors covered by the Internal Model. The output of this process is the Level 1 PDF for each risk factor, which is used to determine individual risk events at the 1-in-200 probability level. For example, at the 1-in-200 probability level, the Level 1 PDF calibration for equity risk may imply a Y% fall in equity values.

Stage 2 – Level 2 PDF – Univariate stress results

The Internal Model uses the risk calibrations established in stage 1 to assess the capital required to cover each single risk factor ('univariate') stress scenario.

For example, the capital required to cover a Y% fall in equity values is determined by comparing the Own Funds in the base position with the stressed value of the Own Funds (i.e. the capital required is equal to the change in the excess of assets over liabilities following a Y% fall in equity values).

Stage 3 – Level 3 PDF – Aggregation and adjustments

As the Group and its insurance subsidiaries are exposed to a large number of risks, a correlation matrix approach is used to aggregate the univariate risks by allowing for dependencies between risks. The aggregated SCR is then further adjusted for: additional 'non-linear' (i.e. second order) impacts caused when all risks occur at the same time in the aggregate (or single equivalent) scenario; the impact of additional (i.e. non-dynamic) management actions that can be used to reduce losses under stressed conditions; and the LACDT.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model

This section includes an explanation of the main differences in methodologies and underlying assumptions used in the Standard Formula and Internal Model SCR, as calculated under the Phoenix Internal Model (covering all entities which were part of the Group prior to the acquisition of Standard Life). Similar details on the Standard Life Internal Model can be found within section E.4 of the SLAL and SLPF SFCRs for the year ended 31 December 2018.

E.4.5.1 Structural model differences

The structure of the Standard Formula and the Phoenix Internal Model methodology are similar in that:

- for each univariate risk the stressed value of assets and liabilities is compared with the unstressed value of assets and liabilities to determine the univariate SCR; and
- univariate risk capital amounts are aggregated to produce an overall SCR using correlation matrices.

However, under the Standard Formula, univariate stress tests are aggregated at a risk module level, and a second correlation matrix is used to then further aggregate across risk modules. The Internal Model aggregates all univariate SCR's through a single correlation matrix.

E.4.5.2. Differences in the nature of risks considered and application of the stress

The main difference between the assessment of risks under the Phoenix Internal Model and Standard Formula is that the Internal Model is based on the assessment of risks relevant to the Group rather than prescribed stresses under the Standard Formula.

The key differences in the risks considered and the stresses applied in the Phoenix Internal Model are set out below.

Market risk

Interest rate risk – the Internal Model considers a range of upward and downward shifts and twists in the yield curve. The Standard Formula applies a single upward stress and a single downward stress. The Internal Model also considers changes to the level of implied interest rate volatility, while the Standard Formula does not.

Gilt spread risk – the Internal Model considers the impact of a movement in gilt yields relative to swap yields. This risk is not capitalised under the Standard Formula.

Currency risk – the Internal Model considers different movements in swap rates across different currencies, in addition to upward and downward movements in foreign currency exchange rates. The Internal Model also considers the movements in different currencies independently, and correlates these to determine the overall exposure to currency risk. The Standard Formula only considers exchange rate movements at an aggregate level across all foreign currencies.

Commercial Property risk – the Internal Model considers both upward and downward movements, while the Standard Formula only considers falling property values. The Internal Model also considers changes in the level of implied property volatility.

Residential Property risk – the expected cashflows from the underlying ERM assets are restructured in a special purpose vehicle to produce Matching Adjustment eligible 'ERM loan notes'. The Internal Model looks through to the potential risks impacting the underlying ERM assets, and assesses the impact on the value of the ERM loan notes. These risks include a fall in property values, a rise in property volatility, prepayment risk, longevity risk, morbidity risk, nominal yield risk and real yield risk. Under the Standard Formula, the ERM loan notes are treated as a type 2 securitisation and stressed in the credit spread stress.

Alternative asset risk – the Internal Model considers both upward and downward movements in the value of alternative assets (e.g. quants and fundamentals) as a separate stress. The Internal Model also considers changes in the level of implied volatility. Under the Standard Formula, alternative investments are considered as part of the equity stress.

Inflation risk – the Internal Model considers a shift and a twist in the real yield curve, together with a stress to the level of inflation volatility. This risk is not capitalised under the Standard Formula.

Concentration risk – no explicit concentration risk capital is held under the Internal Model. Instead, concentration risk is allowed for implicitly within other risk modules, via the assumption setting process. The Standard Formula assesses concentration risk as a separate risk driver.

Credit risk

Market credit spread risk – the Internal Model considers both a widening and narrowing of credit spreads to corporate bond type assets. The Standard Formula considers a widening of credit spreads for corporate bond type assets, together with a separate stress applied to securitisations, and a bi-directional stress for credit derivatives.

Counterparty default risk – both the Standard Formula and Internal Model assess the loss given default based on loss size, probability of loss and recoverability. The Standard Formula calculation allows for risk mitigation benefits, while the Internal Model does not. The Internal Model also considers the increase in risk margin from a default event. Outsourcer default risk is a bespoke calculation under the Internal Model which is not included in the Standard Formula.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

Insurance risk

Mortality/catastrophe risk – the Internal Model application of the stresses is the same as the Standard Formula, although the calibration may differ.

Longevity risk – the Internal Model performs two separate stresses covering changes in base table mortality and future longevity improvements. The Internal Model base table stress makes allowance for increases in the proportion married assumption where relevant. The Standard Formula does not apply a longevity improvements stress, and longevity stresses are not applied to the staff pension schemes under the Standard Formula.

Lapse risk – lapse up and down stresses are applied in the Internal Model and Standard Formula. In the Internal Model each product type is stressed according to the more onerous of an increase or decrease in lapse rates. The Standard Formula lapse level stress is applied at policy level with the same stress applying across all products with any negative risk capital at policy level zeroised. Under the Standard Formula, the overall lapse risk capital is the more onerous of the lapse up, lapse down and mass lapse risk capital.

Late retirement/GAO take-up risk – under the Internal Model, late retirement risk and GAO take-up risk are assessed separately from the lapse "level" stress. Retirement rates are subject to the more onerous of an increase or decrease, and GAO take-up rates are assumed to increase. The Standard Formula stresses GAO take-up rates under the lapse level stress, with no stress to retirement rates.

Mass lapse risk – the Internal Model application of the stress is the same as the Standard Formula, although the calibration may differ.

Expense risk – the Standard Formula stress reflects an immediate increase in expenses, together with an increase to expense inflation. The Internal Model stress reflects an immediate increase in expenses, together with a service company default stress. The default stress covers the risk that the Service Companies default on their costs and the Life Companies incur additional expenses as a result. Investment management costs are not stressed under the Internal Model.

New business pricing risk – under the Internal Model allowance is made for new business pricing risk on vesting annuities and protection business. Allowance for new business risk is not required under the Standard Formula.

Financial Soundness risk

Liquidity and funding risk – the Internal Model assessment involves testing the ability to meet liability cash flows with existing liquid assets. Additional capital is held if the tests are failed. This risk is not covered under the Standard Formula.

Tax risk – the Internal Model considers the risk of an increase in tax rates or challenges from HMRC in respect of previously submitted tax returns. This risk is not covered under the Standard Formula.

Operational Risk

Operational risk – under the Internal Model, a range of operational risks are assessed using a frequency-severity approach, and combined using a correlation matrix. The Standard Formula uses a formulaic approach.

Customer Risk

Under the Internal Model, a stand-alone assessment of customer risk is applied by looking through to the underlying risks and applying a frequency-severity approach. The Standard Formula captures customer risk within operational risk.

Strategic Risk

Strategic risk encompasses the risks arising from a sub-optimal business strategy or sub-optimal implementation of the strategy. Under the Internal Model, risk capital is held to cover the costs which could be incurred if some investment management agreements are dissolved. No equivalent stress is required under the Standard Formula.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.3 Other methodology and assumption differences

A number of other differences exist between the Phoenix Internal Model and Standard Formula. The key differences are explained below.

Aggregation

As highlighted in Section E.4.5.1 above, the Internal Model aggregation approach is based on a single correlation matrix rather than the dual-layer correlation matrices used in the Standard Formula.

An underlying assumption of the correlation matrix approach is that individual risks interact in a linear way when they are combined (using the correlation matrix) to produce risk capital for the single equivalent scenario. However, in practice certain pairs or groups of risks may interact in a non-linear manner and therefore the Internal Model includes an explicit non-linearity adjustment to ensure any additional risk capital from non-linear interactions is captured.

The Internal Model permits diversification between Matching Adjustment portfolios, shareholder-supported With-Profit Funds/pension schemes and other non-ring-fenced funds and entities. No diversification is allowed with self-supporting With-Profit Funds/pension schemes. The Standard Formula does not allow any diversification with RFFs (whether or not they are shareholder-supported) or Matching Adjustment portfolios.

Management actions

For the Group, management actions primarily apply to with-profit funds. The management actions available for use in the calculation of the SCR for each with-profit fund are consistent with those actions set out in the funds' PPFM.

The SCR for a with-profit fund allows for 'dynamic' management actions and additionally may allow for 'non-dynamic' management actions.

Dynamic management actions reflect those actions that form part of normal working practice, for example, varying annual and final bonus rates in the calculation of base and stressed technical provisions.

Non-dynamic management actions are additional actions that are not considered part of normal day-to-day working practice, for example, removal of past conditional estate distributions or increased asset share/guarantee charges.

Under the Internal Model approach, dynamic management actions are captured within each univariate stress and the single equivalent scenario, as these management actions are consistent with those assumed as part of the technical provisions. Non-dynamic management actions are only captured in the single equivalent scenario and are used to offset the part of the SCR caused by a negative estate. Apart from removal of conditional estate distributions, non-dynamic management actions are restricted so that no credit is taken against non-chargeable risks events.

The Standard Formula approach to management actions involves calculating two different measures, the net Basic SCR ('nBSCR') and gross Basic SCR ('BSCR'). No allowance for management actions is made in the BSCR. In the nBSCR, dynamic management actions are allowed for in each univariate stress. Non-dynamic management actions can then subsequently be used in each univariate stress to offset the part of the SCR caused by a negative estate. The difference between the BSCR and nBSCR is used to derive the Loss Absorbing Capacity of Technical Provisions ('LACTP').

Risk mitigating techniques

Risk mitigating techniques represent arrangements that have been entered into by the Group with the aim of transferring part or all of the risk associated with a particular element of the business. These techniques aim to mitigate against:

- market/credit risks – through the use of instruments such as derivatives; and
- underwriting risks – through the use of reinsurance arrangements.

These arrangements introduce additional default risk in relation to the arrangement counterparty(s). This risk is managed in many cases through the use of collateral arrangements.

Under Solvency II, there are strict criteria that must be met in order for an instrument to qualify as risk mitigating. Differences between the Phoenix Internal Model and Standard Formula methodology are summarised below.

Risk mitigation criteria – the Standard Formula rules specify a strict list of criteria that must be met in order to allow a risk mitigation benefit. Internal Model requirements are less prescriptive, but broadly consistent with the Standard Formula (with the exception of basis risk).

Basis risk – only risk mitigating instruments with no (or immaterial) basis risk provide a capital benefit under the Standard Formula SCR. Internal Model basis risk is captured through reductions in the effectiveness of the risk mitigating instrument under the relevant stressed conditions. This is achieved by allowing for only a proportion of the change in the movement of the risk mitigating instrument under stressed conditions.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.3 Other methodology and assumption differences continued

Risk mitigating techniques continued

Financial risk mitigation – under the Standard Formula, where the instrument is fully risk mitigating, both the risk mitigating instrument and the asset/liability being hedged are not stressed. Where the instrument is not fully risk mitigating, the risk mitigating instrument and the asset/liability being hedged will be stressed as a package, provided that the instrument is not subject to material basis risk. If the instrument is subject to material basis risk, then no capital benefit will be recognised for the instrument under stress. Under the Phoenix Internal Model, the risk mitigating instrument and the asset/liability being hedged are stressed as a package, with an allowance for any basis risk.

Insurance risk mitigation – under the Standard Formula, if reinsurance arrangements are fully risk mitigating, then the value of the reinsurance asset will be re-valued under each stress in line with the reinsured liabilities. If the arrangement is partially risk mitigating, the reinsurance asset will be re-valued under each stress to the extent that the associated (stressed) collateral covers the risk exposure. If the arrangement is not risk mitigating, the reinsurance asset is not stressed, but the reinsured liabilities will be stressed. The Internal Model approach takes the full risk mitigation benefit, as Phoenix considers all of its reinsurance arrangements to be fully risk mitigating.

Internal loans

The Standard Formula stresses Group loans according to the credit spread and interest rate risk modules. The impact on each individual risk module is eliminated when aggregating the SCR to Group level, before correlating with other risks.

Under the Internal Model, the value of internal loans is fully written off within the risk capital assessment, with no allowance for diversification with any other risks. The impact on both Own Funds and SCR is consolidated out when aggregating to Group level.

Intra-group insurance and reinsurance

Under the Standard Formula, intra-group insurance or reinsurance transactions involving RFFs or Matching Adjustment portfolios are not eliminated when consolidating to Group level. All other intra-group insurance and reinsurance arrangements are eliminated when calculating the Group SCR.

Under the Internal Model, for reinsurance between Life Companies (or funds of Life Companies), Own Funds and SCR are calculated assuming that the company which accepts the reinsurance retains the associated assets and liabilities. No SCR is held by the ceding company in relation to the risks reinsured. For insurance between a Group defined benefit pension scheme and a life company, the insurance is eliminated for the Group consolidation of Own Funds and SCR.

Other residual related undertakings ('ORRUs')

The Standard Formula treats ORRU's as strategic participations and applies a capital charge which does not diversify against any other Group undertakings. The Internal Model assessment looks through to the underlying risks and allows diversification with the rest of the Group.

E.4.6 Risk measures and time periods used in the Internal Model

The risk measures and time periods used in the Phoenix Internal Model are in line with those set out by the regulations, i.e. the SCR is assessed by considering the capital resources required to ensure that the Own Funds are sufficient to meet a stress event calibrated to a 99.5% confidence level over a one-year period. In practice, stress events are assumed to occur instantaneously rather than over a one-year period.

E.4.7 Nature and appropriateness of data

The main data items used in the Phoenix Internal Model are:

- internal and external data used to calibrate the Level 1 PDFs and correlation matrices used as part of the Internal Model SCR aggregation methodology; and
- policy liability data, asset data, product terms and conditions and reinsurance data, which are used to value Own Funds under base and stress conditions.

All data used in the Internal Model is assessed for appropriateness, completeness and accuracy. To support this, certain controls are in place. These controls, are set out in the Data Management Framework which outlines how data is handled, managed and controlled before being used in the Internal Model. In addition, periodic controls are applied to validate the ongoing appropriateness of the data. Regular controls are applied each time the data is extracted and whenever data is manipulated or transformed. Examples of the types of controls performed include data integrity checks, independent source checks and reasonableness and consistency checks.

The results of applying the controls are captured in validation reports. Weaknesses and limitations are logged and prioritised for future development activity. Any Expert Judgements applied during the process are logged.

CAPITAL MANAGEMENT CONTINUED

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The PGH Group, and each of its insurance subsidiaries held Own Funds in excess of both the SCR and MCR throughout the reporting period and therefore fully complied with capital requirements.

As part of the Group's RMF, various controls are in place to ensure continuing compliance with capital requirements. These include:

- holding a capital buffer (i.e. 'Capital Policy') above the SCR to provide resilience under a range of stress conditions. The amount of the capital buffer is set and monitored by the PGH and insurance subsidiary Boards and reflects the risk profile and financial strength of the Group and individual insurance subsidiaries. In situations where the capital buffer is breached, the Boards are obliged to identify remedial actions to restore the excess assets to the required buffer in a timely manner. To this end, the Boards, no less frequently than annually, approve thresholds that would trigger the remedial actions. These thresholds are calculated both including and excluding any potential recalculation of the TMTP;
- monitoring solvency on a weekly basis, with results reported weekly to senior management and monthly to management committees and boards;
- projecting solvency positions on a quarterly basis, so as to provide an early view of potential capital shortfalls;
- monitoring of balance sheet sensitivities, which are produced on a monthly basis and distributed to senior management; and
- subjecting the solvency positions of the Group and its insurance subsidiaries to Reverse Stress Testing ('RST') at least annually. The RST exercise provides an assessment of policyholder security by testing the combined strength of the funds available to each insurance subsidiary and the Group to enable regulatory capital requirements under stress conditions to be met.

CAPITAL MANAGEMENT CONTINUED

E.6 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Group and insurance subsidiaries Own Funds and SCR.

APPENDIX AND ADDITIONAL INFORMATION

IN THIS SECTION

APPENDIX AND ADDITIONAL INFORMATION

GLOSSARY

ANNUAL OPERATING PLAN ('AOP')	The Group's five- year strategic plan approved by the Board.
ASSET LIABILITY MANAGEMENT ('ALM')	Management of mismatches between assets and liabilities within risk appetite.
BEST ESTIMATE LIABILITY ('BEL')	The probability weighted average of future cash flows, taking into account the time value of money (expected present value of future cash-flows), using the relevant interest rate term structure and taking into account economic and non-economic assumptions.
CLOSED LIFE FUND	A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders.
EIOPA	European Insurance and Occupational Pensions Authority.
FAIR VALUE	The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
FINANCIAL CONDUCT AUTHORITY ('FCA')	The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority ('PRA'), such as asset managers and independent financial advisers.
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ('GAAP')	A common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements.
INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')	Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board ('IASB').
INTERNAL MODEL ('IM')	The agreed methodology and model, approved by the PRA, to calculate the Solvency Capital Requirement ('SCR') pursuant to Solvency II.
LINE OF BUSINESS ('LoB')	The applicable lines of business as prescribed by Annex I of Commission Delegated Regulation (EU) 2015/35.
LONG TERM GUARANTEE MEASURES	The extrapolation of risk-free interest rates, the Matching Adjustment ('MA'), the Volatility Adjustment ('VA'), the extension of the recovery period in case of non-compliance with the SCR, the transitional measures on the risk-free interest rates and the Transitional Measure on Technical Provisions ('TMTP').
LONG-TERM INCENTIVE PLAN ('LTIP')	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to Group strategy.
MANAGEMENT SERVICE AGREEMENT ('MSA')	Contracts that exist between the Phoenix Life and Services Companies or between Services Companies and their outsource partners.
MATCHING ADJUSTMENT ('MA')	An allowance, subject to PRA's approval that allows insurers to use a higher discount rate, based on the underlying assets, when valuing liabilities that meet strict eligibility criteria.
MINIMUM CAPITAL REQUIREMENT	The minimum amount of capital that the Group needs to hold to cover its risks under the Solvency II regulatory framework.
OPERATING PROFIT	Operating profit is a non-GAAP measure that is considered a more representative measure of performance than IFRS profit or loss after tax as it provides long-term performance information unaffected by short term economic volatility.
OWN FUNDS	Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles and subordinated liabilities which qualify to be included in Own Funds under the Solvency II rules. Eligible Own Funds are the amount of Own Funds that are available to cover the Solvency Capital Requirements after applying prescribed quantitative limits and transferability and fungibility restrictions to Basic Own Funds.
PARTIAL INTERNAL MODEL	The model used to calculate the Group SCR pursuant to Solvency II. It aggregates outputs from both the existing Phoenix Internal Model and the Standard Life Internal Model with no diversification between the two.
PART VII TRANSFER	The transfer of insurance policies under Part VII of Financial Services and Markets Act 2000 ('FSMA') 2000. The insurers involved can be in the same corporate group or in different groups. Transfers require the consent of the High Court, which will consider the views of the PRA and FCA and of an Independent Expert.

GLOSSARY CONTINUED

PRUDENTIAL REGULATION AUTHORITY ('PRA')	The body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA and FCA use a Memorandum of Understanding to co-ordinate and carry out their respective responsibilities.
PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT ('PPFM')	A publicly available document which explains how the Company's with-profit business is run. As part of demonstrating that customers are treated fairly, the Board certifies that the PPFM has been complied with.
RIGHTS ISSUE	The rights issue announced by Phoenix on 30 May 2018 and completed on 10 July 2018 in connection with the part financing of the acquisition of the Standard Life Assurance businesses.
RISK MARGIN	The amount used to ensure that the value of the technical provisions is equivalent to the amount that a Life Company would be expected to require in order to take over and meet insurance and reinsurance obligations.
SHARE CAPITAL COVERAGE RATIO	Represents total Eligible Own Funds divided by Solvency Capital Requirement ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR.
SOLVENCY II	A new regime for the prudential regulation of European insurance companies that came into force on 1 January 2016.
SOLVENCY II SURPLUS	The excess of Eligible Own Funds over the Solvency Capital Requirement.
SOLVENCY CAPITAL REQUIREMENT ('SCR')	SCR relates to risks and obligations to which the Group is exposed and calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensure that capital is sufficient to withstand a broadly '1-in-200' event.
STANDARD LIFE ASSURANCE BUSINESSES	Standard Life Assurance Limited, Standard Life Pensions Fund Limited, Standard Life International Designated Activity Company, Vebnet (Holdings) Limited, Vebnet Limited, Standard Life Lifetime Mortgages Limited, Standard Life Assets and Employee Services Limited and Standard Life Investment Funds Limited (together known as the Standard Life Assurance businesses) acquired by the Group on 31 August 2018.
STANDARD FORMULA	A set of calculations prescribed by the regulations for generating the SCR.
TECHNICAL PROVISIONS	The sum of the Best Estimate Liabilities and the risk margin. Technical provisions include Transitional Measures on Technical Provisions where firms have received PRA approval to apply the deduction.
TECHNICAL PROVISIONS AS A WHOLE	Unit reserves recognised separately, to aid in the identification of future profits component of unit-linked technical provisions.
TRANSITIONAL MEASURE ON TECHNICAL PROVISIONS ('TMTP')	An allowance, subject to the PRA's approval, to apply a transitional deduction to technical provisions. The transitional deduction corresponds to the difference between net technical provisions calculated in accordance with Solvency II principals and net technical provisions calculated in accordance with the previous regime. It is expected to decrease linearly over a period of 16 years starting from 1 January 2016 to 1 January 2032. TMTP is subject to a mandatory recalculation every two years or on the occurrence of certain defined events. TMTP is an item of Own Funds.

APPENDICES 1 – 5 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018)

This report has been prepared in conjunction with the following QRTs, the table below illustrates the templates applicable to the PGH Group and each insurance subsidiary:

QRT number	QRT name	PGH Group (Appendix 1)	PLL (Appendix 2)	PLAL (Appendix 3)	ALAC (Appendix 4)	PA(GI) (Unaudited) (Appendix 5)
S.02.01.02	Balance sheet	✓	✓	✓	✓	✓
S.05.01.02	Premiums, claims and expenses by Line of Business	✓	✓	✓	✓	✓
S.05.02.02	Premiums, claims and expenses by Country	✓	–	–	–	–
S.12.01.02	Life and Health SLT technical provisions	–	✓	✓	–	–
S.22.01.21	Impact of long term guarantees and transitionals (Life Companies)	–	✓	✓	–	–
S.22.01.22	Impact of long term guarantees and transitionals (Group)	✓	–	–	–	–
S.23.01.01	Own Funds (Life Companies)	–	✓	✓	✓	✓
S.23.01.22	Own Funds (Group)	✓	–	–	–	–
S.25.02.22	Solvency Capital Requirement – partial Internal Model	✓	–	–	–	–
S.25.03.21	Solvency Capital Requirement – for undertakings on full Internal Model	–	✓	✓	Note 1	✓
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity	–	✓	✓	✓	✓
S.32.01.22	Undertakings in the scope of the Group	✓	–	–	–	–

All public disclosure QRTs shown in the Appendices are presented in sterling (£) rounded to the nearest thousand.

1 No S.25.03.21 QRT is reported for ALAC as the entity holds no SCR following the Part VII transfer of all its business to PLL.

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP
APPENDIX 1.1 – S.02.01.02 BALANCE SHEET QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	101,047
Pension benefit surplus	R0050	254,557
Property, plant & equipment held for own use	R0060	24,800
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**44,744,803**
Property (other than for own use)	R0080	377,237
Holdings in related undertakings, including participations	R0090	24,889,598
Equities	R0100	122,749
Equities – listed	R0110	115,543
Equities – unlisted	R0120	7,206
Bonds	R0130	16,006,465
Government Bonds	R0140	9,702,416
Corporate Bonds	R0150	6,164,407
Structured notes	R0160	40,253
Collateralised securities	R0170	99,389
Collective Investments Undertakings	R0180	1,611,401
Derivatives	R0190	1,646,692
Deposits other than cash equivalents	R0200	90,661
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	21,203,740
Loans and mortgages	**R0230**	**2,133,620**
Loans on policies	R0240	9,338
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	2,124,282
Reinsurance recoverables from:	**R0270**	**8,077,758**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	2,618,420
Health similar to life	R0320	73,211
Life excluding health and index-linked and unit-linked	R0330	2,545,209
Life index-linked and unit-linked	R0340	5,459,338
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	8,160
Reinsurance receivables	R0370	41,520
Receivables (trade, not insurance)	R0380	613,232
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	481,741
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**77,684,978**

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.1 – S.02.01.02 BALANCE SHEET QRT CONTINUED

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**34,512,847**
Technical provisions – health (similar to life)	**R0610**	**125,202**
TP calculated as a whole	R0620	
Best estimate	R0630	125,202
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**34,387,645**
TP calculated as a whole	R0660	
Best estimate	R0670	34,247,933
Risk margin	R0680	139,712
TP – index-linked and unit-linked	**R0690**	**26,347,844**
TP calculated as a whole	R0700	26,569,578
Best estimate	R0710	(223,753)
Risk margin	R0720	2,019
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	149,420
Pension benefit obligations	R0760	74,000
Deposits from reinsurers	R0770	339,585
Deferred tax liabilities	R0780	333,429
Derivatives	R0790	697,229
Debts owed to credit institutions	R0800	1,428,575
Financial liabilities other than debts owed to credit institutions	R0810	1,019
Insurance & intermediaries payables	R0820	558,059
Reinsurance payables	R0830	25,007
Payables (trade, not insurance)	R0840	408,361
Subordinated liabilities	**R0850**	**1,928,868**
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	1,928,868
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**66,804,243**

Excess of assets over liabilities	**R1000**	**10,880,736**

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.2 – S.05.01.02 PREMIUMS, CLAIMS AND EXPENSE BY LINE OF BUSINESS QRT

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	23,760	417,228	4,556,831	1,930,234				72,283	**7,000,335**
Reinsurers' share	R1420	3,213	4,680	502,473	468,962				72,283	**1,051,611**
Net	**R1500**	**20,547**	**412,548**	**4,054,358**	**1,461,272**					**5,948,724**
Premiums earned										
Gross	R1510	23,760	417,228	4,556,831	1,930,234				72,283	**7,000,335**
Reinsurers' share	R1520	3,213	4,680	502,473	468,962				72,283	**1,051,611**
Net	**R1600**	**20,547**	**412,548**	**4,054,358**	**1,461,272**					**5,948,724**
Claims incurred										
Gross	R1610	16,431	2,892,629	10,756,336	1,695,875				38,181	**15,399,450**
Reinsurers' share	R1620	6,423	71,795	935,337	764,923				38,181	**1,816,658**
Net	**R1700**	**10,008**	**2,820,834**	**9,820,998**	**930,952**					**13,582,792**
Changes in other technical provisions										
Gross	R1710	23,101	3,912,863	14,935,879	(298,443)				1,815	**18,575,214**
Reinsurers' share	R1720	8,955	(147,095)	651,186	(319,744)				–	**193,302**
Net	**R1800**	14,145	4,059,958	14,284,693	21,301				1,815	**18,381,912**
Expenses incurred	**R1900**	**6,882**	**243,853**	**492,825**	**233,680**				**–**	**977,241**
Other expenses	R2500									
Total expenses	**R2600**									**977,241**

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.3 – S.05.02.02 PREMIUMS, CLAIMS AND EXPENSE BY COUNTRY QRT

		Home Country	Top 5 countries (by amount of gross written premium) – life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			DE	IE	AT			
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	6,447,909	312,020	230,129	10,277			7,000,335
Reinsurers' share	R1420	1,048,925	498	800	1,388			1,051,611
Net	**R1500**	**5,398,984**	**311,522**	**229,329**	**8,890**			**5,948,724**
Premiums earned								
Gross	R1510	6,449,991	312,020	228,047	10,277			7,000,335
Reinsurers' share	R1520	1,048,925	498	800	1,388			1,051,611
Net	**R1600**	**5,401,066**	**311,522**	**227,247**	**8,890**			**5,948,724**
Claims incurred								
Gross	R1610	14,295,118	291,851	804,816	7,665			15,399,450
Reinsurers' share	R1620	1,812,657	3,095	906	–			1,816,658
Net	**R1700**	**12,482,461**	**288,756**	**803,911**	**7,665**			**13,582,792**
Changes in other technical provisions								
Gross	R1710	17,374,335	223,483	921,451	55,945			18,575,214
Reinsurers' share	R1720	185,488	4,142	1,138	2,535			193,302
Net	**R1800**	**17,188,848**	**219,341**	**920,313**	**53,410**			**18,381,912**
Expenses incurred	**R1900**	877,320	59,304	32,350	8,267			977,241
Other expenses	R2500							
Total expenses	**R2600**							**977,241**

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.4 – S.22.01.22 IMPACT OF LONG TERM GUARANTEES AND TRANSITIONAL MEASURES

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	61,722,172	1,494,548			1,053,201
Basic own funds	R0020	5,982,985	(1,741,646)			(984,408)
Eligible own funds to meet Solvency Capital Requirement	R0050	10,322,434	(2,731,648)		(61,491)	(1,595,927)
Solvency Capital Requirement	R0090	7,085,207	(26,904)		(39,512)	1,301,119

The Basic Own Funds presented above do not include the Method 2 Standard Life insurance subsidiaries, and the effect of any removal of long-term guarantee and transitional measures is also not included. The information included in Section D.2.7 includes the Standard Life insurance subsidiaries and the effect of removal for all measures.

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.5 – S.23.01.22 – OWN FUNDS QRT

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector	R0010	72,120	72,120			
Ordinary share capital (gross of own shares)	R0020					
Non-available called but not paid in ordinary share capital at group level	R0030	3,077,154	3,077,154			
Share premium account related to ordinary share capital	R0040					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0050					
Subordinated mutual member accounts	R0060					
Non-available subordinated mutual member accounts at group level						
Surplus funds	R0070	2,510,420	2,510,420			
Non-available surplus funds at group level	R0080					
Preference shares	R0090	502,673		502,673		
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	3,318,851	3,318,851			
Subordinated liabilities	R0140	1,928,868			1,483,242	445,626
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets	R0160	101,047				101,047
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other items approved by supervisory authority as basic Own Funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	87,602	87,602			
Whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260	5,440,546	5,440,546			
Total of non-available own fund items	R0270					
Total deductions	R0280	5,528,148	5,528,148			
Total basic own funds after deductions	R0290	5,982,985	3,450,396	502,673	1,483,242	546,674

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.5 – S.23.01.22 – OWN FUNDS QRT CONTINUED

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available ancillary own funds at group level	R0380					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Own funds of other financial sectors						
Credit institutions, investment firms, financial institutions, alternative investment fund managers, financial institutions	R0410	4,135	4,135			
Institutions for occupational retirement provision	R0420					
Non regulated entities carrying out financial activities	R0430	83,467	83,467			
Total own funds of other financial sectors	R0440	87,602	87,602			
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450	4,251,847	4,251,847			
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460	4,251,847	4,251,847			
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	5,982,985	3,450,396	502,673	1,483,242	546,674
Total available own funds to meet the minimum consolidated group SCR	R0530	5,436,311	3,450,396	502,673	1,483,242	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	5,982,985	3,450,396	502,673	1,483,242	546,674
Total eligible own funds to meet the minimum consolidated group SCR	R0570	4,160,604	3,450,396	502,673	207,535	
Minimum consolidated Group SCR	R0610	1,037,675				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	401%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	10,322,434	7,789,845	502,673	1,483,242	546,674
Group SCR	R0680	7,085,207				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	146%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	10,880,736
Own shares (included as assets on the balance sheet)	R0710	6,588
Foreseeable dividends, distributions and charges	R0720	168,800
Other basic own fund items	R0730	6,263,414
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	767,848
Other non available own funds	R0750	355,235
Reconciliation reserve before deduction for participations in other financial sector	R0760	3,318,851
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	1,124,294
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total EPIFP	R0790	1,124,294

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.6 – S.25.02.22 – SCR QRT – PARTIAL INTERNAL MODEL

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplification
C0010	C0020	C0030	C0070	C0080	C0090
10700I	Market Spread Risk	1,521,440	1,521,440		
10700P	Market Spread Risk (pension scheme)	76,600	76,600		
11000I	Market risk excluding spread risk	1,352,744	1,352,744		
11000P	Market risk excluding spread risk (pension scheme)	372,499	372,499		
19900I	Diversification within Market Risk	(262,812)	(262,812)		
20000I	Counterparty Risk	148,075	148,075		
20000P	Counterparty Risk (pension scheme)	–	–		
30000I	Life Underwriting Risk	2,157,594	2,157,594		
30000P	Life Underwriting Risk (pension scheme)	187,285	187,285		
40000I	Health Underwriting Risk	–	–		
70100I	Operational Risk	671,904	671,904		
70100P	Operational Risk (pension scheme)	71,786	71,786		
80150I	Other Risks – Strategic Risk	164,832	164,832		
80150P	Other Risks – Strategic Risk (pension scheme)	–	–		
80190I	Other Risks – Financial Soundness Risk	99,592	99,592		
80190P	Other Risks – Financial Soundness Risk (pension scheme)	–	–		
80200I	Non-dynamic management actions	(143,191)	(143,191)		
80300I	Loss-absorbing capacity of deferred tax	(269,149)	(269,149)		
80400I	Other Adjustments	104,287	104,287		
80400P	Other Adjustments (pension scheme)	–	–		

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.6 – S.25.02.22 – SCR QRT – PARTIAL INTERNAL MODEL CONTINUED

		C0100
Total undiversified components	R0110	6,253,486
Diversification	R0060	(1,947,520)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	4,305,966
Capital add-on already set	R0210	
Solvency capital requirement for undertakings under consolidated method	R0220	4,522,154
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	2,108,304
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	(269,149)
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	838,200
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	2,262,086
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	1,205,681
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Minimum consolidated group solvency capital requirement	R0470	1,037,675
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	3,140
Capital requirement for other financial sectors (Non-insurance capital requirements) – Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	3,140
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	
Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non-regulated entities carrying out financial activities	R0530	
Capital requirement for non-controlled participation requirements	R0540	
Capital requirement for residual undertakings	R0550	213,047
Overall SCR		
SCR for undertakings included via D and A	R0560	2,563,053
Solvency capital requirement	R0570	7,085,207

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800DN8K9C4SHNSO89	1 – LEI	PUTM Cautious Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		99.33%	100.00%	99.33%		1 – Dominant	99.33%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800XLPB31C21BK654	1 – LEI	PUTM European Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		99.42%	100.00%	99.42%		1 – Dominant	99.42%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138004HI8MR9C7M4110	1 – LEI	PUTM Far Eastern Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		99.69%	100.00%	99.69%		1 – Dominant	99.69%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138007MBUBP1DYEF454	1 – LEI	PUTM Growth Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800TGH1B5H3CCKM64	1 – LEI	PUTM Opportunity Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		99.99%	100.00%	99.99%		1 – Dominant	99.99%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800R93551HXPTCO23	1 – LEI	PUTM International Growth Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		99.62%	100.00%	99.62%		1 – Dominant	99.62%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800R4RZSQBOAMVN21	1 – LEI	PUTM Uk Stock Market Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800AZRF8KX73WPT70	1 – LEI	PUTM UK STOCK MARKET FUND (SERIES 3)	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KPZ3IYLLF4UT85	1 – LEI	PUTM Uk All-Share Index Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		99.96%	100.00%	99.96%		1 – Dominant	99.96%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800P3GNH79HH17J98	1 – LEI	PUTM Uk Equity Unit Trust	99 – Other	Authorised unit trust	2 – Non-mutual		99.84%	100.00%	99.84%		1 – Dominant	99.84%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138007GV3TM61ULD343	1 – LEI	PUTM Bothwell Asia Pacific (Excluding Japan) Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.49%	100.00%	99.49%		1 – Dominant	99.49%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800P8QDZ2EUITVU80	1 – LEI	PUTM Bothwell Europe Fund	99 – Other	Authorised unit trust	2 – Non-mutual		98.63%	100.00%	98.63%		1 – Dominant	98.63%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800A36R1Z1S85RR19	1 – LEI	PUTM Bothwell Emerging Market Debt Unconstrained Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800882SVHV1XPLA47	1 – LEI	PUTM Bothwell European Credit Fund	99 – Other	Authorised unit trust	2 – Non-mutual		82.78%	100.00%	82.78%		1 – Dominant	82.78%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138008DFTGZAKHGR525	1 – LEI	PUTM Bothwell Global Bond Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.90%	100.00%	99.90%		1 – Dominant	99.90%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800JGHD8XCIYNWU64	1 – LEI	PUTM Bothwell Global Credit Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.99%	100.00%	99.99%		1 – Dominant	99.99%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800XSYBULEE2E4N30	1 – LEI	PUTM Bothwell Floating Rate ABS Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800FOR1Z8YSVHSW15	1 – LEI	PUTM Bothwell Index-Linked Sterling Hedged Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800IH74PGGQ7I4488	1 – LEI	PUTM Bothwell Japan Equity Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.58%	100.00%	99.58%		1 – Dominant	99.58%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KHXBLNLCG65816	1 – LEI	PUTM Bothwell Long Gilt Sterling Hedged Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.91%	100.00%	99.91%		1 – Dominant	99.91%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800VCC5MENTKHP567	1 – LEI	PUTM Bothwell Emerging Markets Equity Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.91%	100.00%	99.91%		1 – Dominant	99.91%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800SEKD6AE8YAIX35	1 – LEI	PUTM Bothwell North America Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.40%	100.00%	99.40%		1 – Dominant	99.40%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800FHKCOXS82HQG65	1 – LEI	PUTM Bothwell Sterling Government Bond Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.02%	100.00%	99.02%		1 – Dominant	99.02%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800T31U3W79HGRH81	1 – LEI	PUTM Bothwell Euro Sovereign Fund	99 – Other	Authorised unit trust	2 – Non-mutual		87.78%	100.00%	87.78%		1 – Dominant	87.78%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800TRPZOHA5CTQT96	1 – LEI	PUTM Bothwell Sterling Credit Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.82%	100.00%	99.82%		1 – Dominant	99.82%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800XP7PXFVTAW1H83	1 – LEI	PUTM Bothwell Tactical Asset Allocation Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138007RKH637ZHATD66	1 – LEI	PUTM Bothwell Uk All Share Listed Equity Fund	99 – Other	Authorised unit trust	2 – Non-mutual		99.43%	100.00%	99.43%		1 – Dominant	99.43%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KH7K7YYQ7LLG85	1 – LEI	PUTM Bothwell Uk Equity Income Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800W3AMX9O6QS6F82	1 – LEI	PUTM Bothwell Sub-Sovereign Bond Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	21380067JPI4ENNTAD73	1 – LEI	PUTM Bothwell Institutional Credit Fund	99 – Other	Authorised unit trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	549300Y6I95V6CJ8JP75	1 – LEI	Standard Life Investments Strategic Bond Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		53.29%	53.29%	53.29%		2 – Significant	53.29%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300ZJSFSEALGJ0R05	1 – LEI	Standard Life Investments Global Absolute Return Strategies Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		75.52%	75.52%	75.52%		2 – Significant	75.52%	1 – Included in the scope		5 – Method 2: Solvency II
GB	54930000QS4A1CF6L143	1 – LEI	Standard Life Investments Dynamic Distribution Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		49.15%	49.15%	49.15%		2 – Significant	49.15%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300V3RPDL6NYXXQ96	1 – LEI	Standard Life Multi-Asset Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		99.99%	100.00%	99.99%		1 – Dominant	99.99%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300MFFMRGN3DL4U09	1 – LEI	Standard Life European Trust II	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800CIR2UE599MVG13	1 – LEI	Standard Life Investments Uk Real Estate Accumulation Feeder Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		46.09%	46.09%	46.09%		2 – Significant	46.09%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800289MMZV51S2O60	1 – LEI	Standard Life Investments Uk Real Estate Income Feeder	99 – Other	Authorised Unit Trust	2 – Non-mutual		30.19%	30.19%	30.19%		2 – Significant	30.19%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300TSFB2Y6YJ6C454	1 – LEI	Standard Life Investment Company – Uk Equity Recovery Fund	99 – Other	Open ended investment company	2 – Non-mutual		34.46%	34.46%	34.46%		2 – Significant	34.46%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300DPG7M5B26ETT89	1 – LEI	Standard Life Investment Company – Global Emerging Markets Equity Fund	99 – Other	Open ended investment company	2 – Non-mutual		77.82%	100.00%	77.82%		1 – Dominant	77.82%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300NR581Q2AE3V593	1 – LEI	Standard Life Investment Company – Emerging Market Debt Fund	99 – Other	Open ended investment company	2 – Non-mutual		89.09%	100.00%	89.09%		1 – Dominant	89.09%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300IL7BS03RLOFU72	1 – LEI	Standard Life Investment Company – Global Emerging Markets Equity Income Fund	99 – Other	Open ended investment company	2 – Non-mutual		69.75%	69.75%	69.75%		2 – Significant	69.75%	1 – Included in the scope		5 – Method 2: Solvency II

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	549300U6FPNMXT4DDH56	1 – LEI	Standard Life Investment Company – Japanese Equity Growth Fund	99 – Other	Open ended investment company	2 – Non-mutual		73.02%	100.00%	73.02%		1 – Dominant	73.02%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300VKUPR8GFVZ0E68	1 – LEI	Standard Life Investment Company – Uk Equity Growth Fund	99 – Other	Open ended investment company	2 – Non-mutual		24.29%	24.29%	24.29%		2 – Significant	24.29%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300D1NAKBNQ6EWD13	1 – LEI	Standard Life Investment Company – UK Equity High Income Fund	99 – Other	Open ended investment company	2 – Non-mutual		29.90%	29.90%	29.90%		2 – Significant	29.90%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300BUA0TYZW27B545	1 – LEI	Standard Life Investment Company – American Equity Unconstrained Fund	99 – Other	Open ended investment company	2 – Non-mutual		21.93%	21.93%	21.93%		2 – Significant	21.93%	1 – Included in the scope		5 – Method 2: Solvency II
GB	5493009V1KC8G3NJ2Q15	1 – LEI	Standard Life Investment Company – Uk Equity High Alpha Fund	99 – Other	Open ended investment company	2 – Non-mutual		22.09%	22.09%	22.09%		2 – Significant	22.09%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300I8RCKMET404713	1 – LEI	Standard Life Investment Company – Global Equity Unconstrained Fund	99 – Other	Open ended investment company	2 – Non-mutual		46.26%	46.26%	46.26%		2 – Significant	46.26%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300AJF86HZ376OZ22	1 – LEI	Standard Life Investment Company – Uk Opportunities Fund	99 – Other	Open ended investment company	2 – Non-mutual		63.93%	63.93%	63.93%		2 – Significant	63.93%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300NVBXP1WSQJB038	1 – LEI	Standard Life Investment Company – Short Duration Credit Fund	99 – Other	Open ended investment company	2 – Non-mutual		20.70%	20.70%	20.70%		2 – Significant	20.70%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300KYBU0ETB5ZMM34	1 – LEI	Standard Life Investment Company – Uk Smaller Companies Fund	99 – Other	Open ended investment company	2 – Non-mutual		28.63%	28.63%	28.63%		2 – Significant	28.63%	1 – Included in the scope		5 – Method 2: Solvency II
GB	5493009SERSZDJPL4C02	1 – LEI	Standard Life Investment Company – European Equity Growth Fund	99 – Other	Open ended investment company	2 – Non-mutual		24.11%	24.11%	24.11%		2 – Significant	24.11%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300BRIS40GV4JCP40	1 – LEI	Standard Life Investment Company II – Standard Life Investments European Ethical Equity Fund	99 – Other	Open ended investment company	2 – Non-mutual		87.01%	100.00%	87.01%		1 – Dominant	87.01%	1 – Included in the scope		5 – Method 2: Solvency II
GB	5493002GMCQF3QS0II56	1 – LEI	Standard Life Investment Company Ii – Standard Life Investments Uk Equity Unconstrained Fund	99 – Other	Open ended investment company	2 – Non-mutual		36.62%	36.62%	36.62%		2 – Significant	36.62%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300K8H8PF81I79V14	1 – LEI	Standard Life Investment Company II – Standard Life Investments Ethical Corporate Bond Fund	99 – Other	Open ended investment company	2 – Non-mutual		37.13%	37.13%	37.13%		2 – Significant	37.13%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300G5T8WS3QYVLZ52	1 – LEI	Standard Life Investment Company II – Standard Life Investments Corporate Debt Fund	99 – Other	Open ended investment company	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	5493001D9Z9K60I20F92	1 – LEI	SLMT – American Equity Unconstrained Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		48.27%	48.27%	48.27%		2 – Significant	48.27%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300JW31CPY05QNC81	1 – LEI	SLMT – Standard Life Japan Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		45.28%	45.28%	45.28%		2 – Significant	45.28%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300NR5XU4V9M57E06	1 – LEI	Standard Life Investments Global Real Estate Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		51.85%	51.85%	51.85%		2 – Significant	51.85%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300OGBCWXTEIIB738	1 – LEI	Standard Life European Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		92.69%	100.00%	92.69%		1 – Dominant	92.69%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300HH5KCHFB2PI064	1 – LEI	Standard Life Japan Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		81.74%	100.00%	81.74%		1 – Dominant	81.74%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300NXR0AHS2OB8865	1 – LEI	Standard Life North American Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		81.00%	100.00%	81.00%		1 – Dominant	81.00%	1 – Included in the scope		5 – Method 2: Solvency II

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	5493007AVUY3HNQMVP73	1 – LEI	Citibank International PLC as trustee of the Standard Life Pacific Basin Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		92.68%	100.00%	92.68%		1 – Dominant	92.68%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300GTXIX56BJFR736	1 – LEI	Standard Life Short Dated UK Government Bond Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		99.96%	100.00%	99.96%		1 – Dominant	99.96%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300M1KFPI0OTDC316	1 – LEI	Standard Life Global Equity Trust II	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300EMFE000TQ5QC17	1 – LEI	Standard Life UK Government Bond Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300IWURTTOR0B5L22	1 – LEI	Standard Life UK Corporate Bond Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300VAK5WRI3QRS839	1 – LEI	Standard Life Active Plus Bond Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		99.99%	100.00%	99.99%		1 – Dominant	99.99%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300SHV3HHVK5G9F12	1 – LEI	Standard Life International Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300KD05F31UEJVV51	1 – LEI	Standard Life Pan-European Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		99.97%	100.00%	99.97%		1 – Dominant	99.97%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300R55XQGRNOY5804	1 – LEI	Standard Life Uk Equity General Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		99.76%	100.00%	99.76%		1 – Dominant	99.76%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800EQHAIYMJPLIZ18	1 – LEI	Standard Life Investment Company III-Myfolio Market I Fund	99 – Other	Open ended investment company	2 – Non-mutual		46.84%	46.84%	46.84%		2 – Significant	46.84%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800IFS6A5AOLOUS24	1 – LEI	Standard Life Investment Company III-Myfolio Market Ii Fund	99 – Other	Open ended investment company	2 – Non-mutual		41.52%	41.52%	41.52%		2 – Significant	41.52%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800WD5VNT5CS9QF27	1 – LEI	Standard Life Investment Company III-Myfolio Market Iii Fund	99 – Other	Open ended investment company	2 – Non-mutual		59.21%	59.21%	59.21%		2 – Significant	59.21%	1 – Included in the scope		5 – Method 2: Solvency II
GB	2138007A8RMRT2RC2E67	1 – LEI	Standard Life Investment Company III- Myfolio Market Iv Fund	99 – Other	Open ended investment company	2 – Non-mutual		57.92%	57.92%	57.92%		2 – Significant	57.92%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800TGMTB8IDAYKD45	1 – LEI	Standard Life Investment Company III- Myfolio Market V Fund	99 – Other	Open ended investment company	2 – Non-mutual		65.25%	65.25%	65.25%		2 – Significant	65.25%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800MQ6R6KOI53DV94	1 – LEI	Standard Life Investment Company III- Myfolio Multi Manager I Fund	99 – Other	Open ended investment company	2 – Non-mutual		56.21%	56.21%	56.21%		2 – Significant	56.21%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800EEJVVK31YR6A19	1 – LEI	Standard Life Investment Company III- Myfolio Multi Manager II Fund	99 – Other	Open ended investment company	2 – Non-mutual		54.62%	54.62%	54.62%		2 – Significant	54.62%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800731SH2AZ2LNR22	1 – LEI	Standard Life Investment Company III- Myfolio Multi Manager III Fund	99 – Other	Open ended investment company	2 – Non-mutual		60.23%	60.23%	60.23%		2 – Significant	60.23%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800I2TZGOMPYGRH19	1 – LEI	Standard Life Investment Company Iii-Myfolio Multi Manager IV Fund	99 – Other	Open ended investment company	2 – Non-mutual		53.24%	53.24%	53.24%		2 – Significant	53.24%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800QWLPXCX6JPNJ46	1 – LEI	Standard Life Investment Company Iii-Myfolio Multi Manager V Fund	99 – Other	Open ended investment company	2 – Non-mutual		52.18%	52.18%	52.18%		2 – Significant	52.18%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800XNFM8J47REYL45	1 – LEI	Standard Life Investment Company Iii-Myfolio Managed I Fund	99 – Other	Open ended investment company	2 – Non-mutual		65.10%	65.10%	65.10%		2 – Significant	65.10%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800JVMZC7GM5CYO35	1 – LEI	Standard Life Investment Company Iii- Myfolio Managed II Fund	99 – Other	Open ended investment company	2 – Non-mutual		65.48%	65.48%	65.48%		2 – Significant	65.48%	1 – Included in the scope		5 – Method 2: Solvency II
GB	2138005CQLTFA4T8LN82	1 – LEI	Standard Life Investment Company Iii- Myfolio Managed III Fund	99 – Other	Open ended investment company	2 – Non-mutual		74.20%	100.00%	74.20%		1 – Dominant	74.20%	1 – Included in the scope		5 – Method 2: Solvency II

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800PYGZT1KZZ9UT72	1 – LEI	Standard Life Investment Company Iii- Myfolio Managed IV Fund	99 – Other	Open ended investment company	2 – Non-mutual		61.11%	61.11%	61.11%		2 – Significant	61.11%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800DT88TRXWXFW531	1 – LEI	Standard Life Investment Company Iii- Myfolio Managed V Fund	99 – Other	Open ended investment company	2 – Non-mutual		66.78%	66.78%	66.78%		2 – Significant	66.78%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300G33G26OFOVG932	1 – LEI	Standard Life Investment Company III – MyFolio Managed Income II Fund	99 – Other	Open ended investment company	2 – Non-mutual		43.84%	43.84%	43.84%		2 – Significant	43.84%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300BGII9VTGGBO037	1 – LEI	Standard Life Investment Company III – MyFolio Managed Income III Fund	99 – Other	Open ended investment company	2 – Non-mutual		50.75%	50.75%	50.75%		2 – Significant	50.75%	1 – Included in the scope		5 – Method 2: Solvency II
GB	5493000YK0YJ6Q9DLZ09	1 – LEI	Standard Life Investment Company III – Enhanced-Diversification Growth Fund	99 – Other	Open ended investment company	2 – Non-mutual		98.04%	100.00%	98.04%		1 – Dominant	98.04%	1 – Included in the scope		5 – Method 2: Solvency II
LU	5493008OG218QJPAV326	1 – LEI	Standard Life Investments Global SICAV II – Global Short Duration Corporate Bond Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		76.05%	100.00%	76.05%		1 – Dominant	76.05%	1 – Included in the scope		5 – Method 2: Solvency II
LU	O7HH6SBXFMH5NOPHCD14	1 – LEI	Standard Life Investments Global SICAV – Euro Government All Stocks Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	549300MQ6OU848KVSO26	1 – LEI	Standard Life Investments Global SICAV – Global Emerging Markets Equity Unconstrained Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		86.83%	100.00%	86.83%		1 – Dominant	86.83%	1 – Included in the scope		5 – Method 2: Solvency II
LU	549300M4GPJKY6QZ5W83	1 – LEI	Standard Life Investments Global SICAV – Emerging Market Local Currency Debt Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		71.98%	100.00%	71.98%		1 – Dominant	71.98%	1 – Included in the scope		5 – Method 2: Solvency II
LU	GXYUVJHLG0VXGF6GTH78	1 – LEI	Standard Life Investments Global SICAV – Global Bond Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		76.59%	100.00%	76.59%		1 – Dominant	76.59%	1 – Included in the scope		5 – Method 2: Solvency II
LU	U9X3FTNHCUP4L0WKGX71	1 – LEI	Standard Life Investments Global SICAV – Global High Yield Bond Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		68.18%	100.00%	68.18%		1 – Dominant	68.18%	1 – Included in the scope		5 – Method 2: Solvency II
LU	WYX5CIV6AFQZIQU82357	1 – LEI	Standard Life Investments Global SICAV – Global Equities Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		88.84%	100.00%	88.84%		1 – Dominant	88.84%	1 – Included in the scope		5 – Method 2: Solvency II
LU	UYCT0I5PGBDBY00XEV95	1 – LEI	Standard Life Investments Global SICAV – China Equities Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		75.33%	100.00%	75.33%		1 – Dominant	75.33%	1 – Included in the scope		5 – Method 2: Solvency II
LU	JXZR3W3VMU9TZ227V008	1 – LEI	Standard Life Investments Global SICAV – Global Corporate Bond Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		56.47%	56.47%	56.47%		2 – Significant	56.47%	1 – Included in the scope		5 – Method 2: Solvency II
LU	5493002WQL6BCM1H6D35	1 – LEI	Standard Life Investments Global SICAV – Emerging Market Debt Unconstrained Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		84.25%	100.00%	84.25%		1 – Dominant	84.25%	1 – Included in the scope		5 – Method 2: Solvency II
LU	5493007BOMBCJ37CZ650	1 – LEI	Standard Life Investments Global SICAV – Japanese Equities Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		75.74%	100.00%	75.74%		1 – Dominant	75.74%	1 – Included in the scope		5 – Method 2: Solvency II
LU	IKNRVTZFJMXVU04INT73	1 – LEI	Standard Life Investments Global SICAV – European Smaller Companies Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		33.00%	33.00%	33.00%		2 – Significant	33.00%	1 – Included in the scope		5 – Method 2: Solvency II

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
LU	JCSNRTX2P3VQCSCY9U38	1 – LEI	Standard Life Investments Global SICAV – Global REIT Focus Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		91.43%	100.00%	91.43%		1 – Dominant	91.43%	1 – Included in the scope		5 – Method 2: Solvency II
LU	549300QSOMMNP45UUX41	1 – LEI	Standard Life Investments Global SICAV – Global Focused Strategies Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		46.02%	46.02%	46.02%		2 – Significant	46.02%	1 – Included in the scope		5 – Method 2: Solvency II
LU	0C8VPGENNA8PSKOIU246	1 – LEI	Standard Life Investments Global SICAV – European Corporate Bond Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		31.95%	31.95%	31.95%		2 – Significant	31.95%	1 – Included in the scope		5 – Method 2: Solvency II
LU	549300HYV8G6BSOFVX33	1 – LEI	Standard Life Investments Global SICAV – Global Absolute Return Strategies Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		37.43%	37.43%	37.43%		2 – Significant	37.43%	1 – Included in the scope		5 – Method 2: Solvency II
LU	ZBFDG70US1SSJG9Z0Y21	1 – LEI	Standard Life Investments Global SICAV – Absolute Return Global Bond Strategies Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		45.99%	45.99%	45.99%		2 – Significant	45.99%	1 – Included in the scope		5 – Method 2: Solvency II
IE	549300FZNZKXXUYXI275	1 – LEI	Seabury Assets Fund Public Limited Company – Sterling Vnav Liquidity Fund	99 – Other	Open ended investment company	2 – Non-mutual		99.57%	100.00%	99.57%		1 – Dominant	99.57%	1 – Included in the scope		5 – Method 2: Solvency II
IE	549300JWIMS5EZ61L635	1 – LEI	Seabury Assets Fund Public Limited Company – Euro Vnav Liquidity Fund	99 – Other	Open ended investment company	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
KY	21380039CUL33ZF3UK04	1 – LEI	Ignis Private Equity Fund LP	99 – Other	Limited Partnership	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
KY	2138006EXLOU452E4658	1 – LEI	Ignis Strategic Credit Fund LP	99 – Other	Limited Partnership	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	2138004MK7VPTZ99EV13	1 – LEI	Standard Life Private Equity Trust Plc	99 – Other	Company limited by shares	2 – Non-mutual		55.00%	100.00%	55.00%		1 – Dominant	55.00%	1 – Included in the scope		5 – Method 2: Solvency II
US	923M5RA2I1X3IO5NGM14GB10000	2 – Specific code	North American Strategic Partners 2008 L.P.	99 – Other	Limited Partnership	2 – Non-mutual		80.00%	100.00%	80.00%		1 – Dominant	80.00%	1 – Included in the scope		5 – Method 2: Solvency II
US	923M5RA2I1X3IO5NGM14GB10001	2 – Specific code	North American Strategic Partners (Feeder) 2008 L.P.	99 – Other	Limited Partnership	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14GB10002	2 – Specific code	Standard Life Assurance (HWPF) Luxemburg S.à r.l.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
BE	923M5RA2I1X3IO5NGM14GB10003	2 – Specific code	SLA Belgium No.1 SA	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14GB10004	2 – Specific code	SLA Germany No.1 S.à r.l.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14GB10005	2 – Specific code	SLA Germany No.2 S.à r.l.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14GB10006	2 – Specific code	SLA Germany No.3 S.à r.l.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14GB10007	2 – Specific code	SLA Ireland No.1 S.à r.l.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
NL	923M5RA2I1X3IO5NGM14GB10008	2 – Specific code	SLA Netherlands No.1 B.V.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
SE	923M5RA2I1X3IO5NGM14GB10009	2 – Specific code	Pilangen Logistik AB	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
SE	923M5RA2I1X3IO5NGM14GB10010	2 – Specific code	Pilangen Logistik I AB	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
IE	213800TDBB718C196H58	1 – LEI	Ignis Strategic Solutions Funds Public Limited Company – Systematic Strategies Fund	99 – Other	Open ended investment company	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED

APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
IE	213800SH4MG4MNVECA61	1 – LEI	Ignis Strategic Solutions Funds Public Limited Company – Fundamental Strategies Fund	99 – Other	Open ended investment company	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800IJ3HKI1OZKQ289	1 – LEI	Janus Henderson Institutional Mainstream Uk Equity Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800SPJ66CK3GEGF30	1 – LEI	Janus Henderson Institutional Uk Equity Tracker Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800PZXIJUMYOXDN27	1 – LEI	Janus Henderson Global Funds – Janus Henderson Institutional Overseas Bond Fund	99 – Other	Open ended investment company	2 – Non-mutual		99.07%	100.00%	99.07%		1 – Dominant	99.07%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800VG1BZO9WR4I941	1 – LEI	Henderson Diversified Growth	99 – Other	Open ended investment company	2 – Non-mutual		83.18%	100.00%	83.18%		1 – Dominant	83.18%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	21380011W681SRN4QP87	1 – LEI	Janus Henderson Uk & Europe Funds – Janus Henderson Institutional Uk Gilt Fund	99 – Other	Open ended investment company	2 – Non-mutual		75.29%	100.00%	75.29%		1 – Dominant	75.29%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800TQYSHLWYSUR685	1 – LEI	Janus Henderson Institutional Uk Index Opportunities Trust	99 – Other	Open ended investment company	2 – Non-mutual		75.53%	100.00%	75.53%		1 – Dominant	75.53%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800I7IK5UQW1RAB89	1 – LEI	Janus Henderson Uk & Europe Funds – Janus Henderson Institutional Short Duration Bond Fund	99 – Other	Authorised Unit Trust	2 – Non-mutual		99.00%	100.00%	99.00%		1 – Dominant	99.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138004YB2HUL6PHSQ91	1 – LEI	Janus Henderson Sustainable/Responsible Funds – Janus Henderson Institutional Global Responsible Managed Fund	99 – Other	Open ended investment company	2 – Non-mutual		57.49%	57.49%	57.49%		2 – Significant	57.49%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138007DWD6A7X7FL923	1 – LEI	Janus Henderson Strategic Investment Funds – Janus Henderson Institutional North American Index Opportunities Fund	99 – Other	Open ended investment company	2 – Non-mutual		87.82%	100.00%	87.82%		1 – Dominant	87.82%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800RYS2Q664BL2G62	1 – LEI	Janus Henderson Strategic Investment Funds – Janus Henderson Institutional European Index Opportunities Fund	99 – Other	Open ended investment company	2 – Non-mutual		80.03%	100.00%	80.03%		1 – Dominant	80.03%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138006CHW6K23X8BM02	1 – LEI	Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Asia Pacific Ex Japan Index Opportunities Fund	99 – Other	Open ended investment company	2 – Non-mutual		76.25%	100.00%	76.25%		1 – Dominant	76.25%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800GCSPYUX5TO2V30	1 – LEI	Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Japan Index Opportunities Fund	99 – Other	Open ended investment company	2 – Non-mutual		69.32%	100.00%	69.32%		1 – Dominant	69.32%	1 – Included in the scope		3 – Method 1: Adjusted equity method
ES	923M5RA2I1X3IO5NGM14GB10011	2 – Specific code	28 Ribera del Loira SA	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
ES	923M5RA2I1X3IO5NGM14GB10012	2 – Specific code	330 Avenida de Aragon SL	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB10013	2 – Specific code	SLIF Property Investment GP	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB10014	2 – Specific code	The Heritable Securities and Mortgage Investment Association Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
NL	923M5RA2I1X3IO5NGM14GB10015	2 – Specific code	The Standard Life Assurance Company of Europe B.V.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
JE	923M5RA2I1X3IO5NGM14GB10016	2 – Specific code	Gallions Reach Shopping Park Unit Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		50.00%	50.00%	50.00%		2 – Significant	50.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB10017	2 – Specific code	Gallions Reach Shopping Park (Nominee) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14GB10018	2 – Specific code	Hundred S.à r.l.	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
JE	923M5RA2I1X3IO5NGM14GB10019	2 – Specific code	Standard Life Investments UK Retail Park Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		56.60%	56.60%	56.60%		2 – Significant	56.60%	1 – Included in the scope		5 – Method 2: Solvency II
JE	923M5RA2I1X3IO5NGM14GB10020	2 – Specific code	Standard Life Investments UK Shopping Centre Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		40.66%	40.66%	40.66%		2 – Significant	40.66%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB10021	2 – Specific code	Castlepoint LP	99 – Other	Limited Partnership	2 – Non-mutual		35.00%	35.00%	35.00%		2 – Significant	35.00%	1 – Included in the scope		5 – Method 2: Solvency II
JE	923M5RA2I1X3IO5NGM14GB10022	2 – Specific code	Crawley Unit Trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	549300HBG59GBCBNNR42	1 – LEI	Aberdeen Standard Liquidity Fund (Lux) – Sterling Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		22.21%	22.21%	22.21%		2 – Significant	22.21%	1 – Included in the scope		5 – Method 2: Solvency II
LU	549300IHIK42PU3VDN23	1 – LEI	Aberdeen Standard Liquidity Fund (Lux) – Short Duration Sterling Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		34.60%	34.60%	34.60%		2 – Significant	34.60%	1 – Included in the scope		5 – Method 2: Solvency II
LU	549300H7ELL1ZCTXVS23	1 – LEI	Aberdeen Standard Liquidity Fund (Lux) – Euro Fund	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		36.62%	36.62%	36.62%		2 – Significant	36.62%	1 – Included in the scope		5 – Method 2: Solvency II
GB	549300S31L6C8BSM2G23	1 – LEI	Scottish Widows Tracker And Specialist Investment Funds Icvc – International Bond Fund	99 – Other	Open ended investment company	2 – Non-mutual		60.73%	60.73%	60.73%		2 – Significant	60.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800IVG9SKM4YH4C86	1 – LEI	Axa Fixed Interest Investment Icvc – Axa Sterling Strategic Bond Fund	99 – Other	Company limited by shares	2 – Non-mutual		61.92%	61.92%	61.92%		2 – Significant	61.92%	1 – Included in the scope		3 – Method 1: Adjusted equity method
LU	549300RDK6X3LSLXYT37	1 – LEI	Ab Sicav I – Global Dynamic Bond Portfolio	99 – Other	Company limited by shares	2 – Non-mutual		42.34%	42.34%	42.34%		2 – Significant	42.34%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	549300QXFKF2HVT74U06	1 – LEI	MI Somerset Capital Management Investment Funds ICVC – MI Somerset Global Emerging Markets Fund	99 – Other	Open ended investment company	2 – Non-mutual		34.49%	34.49%	34.49%		2 – Significant	34.49%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800MQX9WG9VCJMD31	1 – LEI	Axa Fixed Interest Investment Icvc – Axa Sterling Index Linked Bond Fund	99 – Other	Open ended investment company	2 – Non-mutual		22.71%	22.71%	22.71%		2 – Significant	22.71%	1 – Included in the scope		3 – Method 1: Adjusted equity method
IE	21380051UM96PZIZAF74	1 – LEI	BMO UCITS ETF ICAV – BMO Bloomberg Barclays 1-3 Year Global Corporate Bond (Gbp Hedged) Ucits Etf	99 – Other	Undertakings for Collective Investments in Transferable Securities	2 – Non-mutual		49.17%	49.17%	49.17%		2 – Significant	49.17%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	549300G9T4G15WXCD957	1 – LEI	Scottish Widows Uk And Income Investment Funds Icvc – Ethical Fund	99 – Other	Open ended investment company	2 – Non-mutual		20.39%	20.39%	20.39%		2 – Significant	20.39%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800AQFD9HY1EG3T16	1 – LEI	Axa Fixed Interest Investment Icvc – Axa Global High Income Fund	99 – Other	Open ended investment company	2 – Non-mutual		25.68%	25.68%	25.68%		2 – Significant	25.68%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	549300FOFZB42GW3KA59	1 – LEI	Aberdeen Investment Funds ICVC III – Aberdeen Global Emerging Markets Quantitative Equity Fund	99 – Other	Open ended investment company	2 – Non-mutual		27.08%	27.08%	27.08%		2 – Significant	27.08%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
IE	5493007EO5NF2NTTDH37	1 – LEI	iShares Public Limited Company – iShares MSCI Taiwan UCITS ETF USD (Dist)	99 – Other	Undertakings for Collective Investments in Transferable Securities	2 – Non-mutual		24.46%	24.46%	24.46%		2 – Significant	24.46%	1 – Included in the scope		3 – Method 1: Adjusted equity method
LU	56D8IVMHN27NW5MPNL88	1 – LEI	AQR UCITS Funds – AQR Global Risk Parity UCITS Fund	99 – Other	Undertakings for Collective Investments in Transferable Securities	2 – Non-mutual		48.37%	48.37%	48.37%		2 – Significant	48.37%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	5493007Y7ZYJQ7UM7O14	1 – LEI	AB SICAV I – Global Factor Portfolio	99 – Other	Société d'Investissement À Capital Variable (SICAV)	2 – Non-mutual		53.14%	100.00%	53.14%		1 – Dominant	53.14%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	5493005Q5UD09XMDS126	1 – LEI	Aberdeen capital trust	99 – Other	Authorised Unit Trust	2 – Non-mutual		99.26%	100.00%	99.26%		1 – Dominant	99.26%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138005ZEJNYUIFBET73	1 – LEI	BA (FURBS) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800H867B9CB2RM694	1 – LEI	London Life Trustees Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	21380065SBT1KWR9GL23	1 – LEI	National Provident Institution	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800UX8KICATW4FL79	1 – LEI	NPI (Printworks) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800Q3CZMOFF9OE643	1 – LEI	NPI (Westgate) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800G8PY6JCXSQLC67	1 – LEI	Pearl (Barwell 2) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138001CFOTDN3U7BM31	1 – LEI	Pearl (Chiswick House) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800SHU5OGZS6PJZ19	1 – LEI	Pearl (Covent Garden) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800JH8I75Q3WBIX59	1 – LEI	Pearl (Martineau Phase 1) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800H9LDHZUVWW9F07	1 – LEI	Pearl (Martineau Phase 2) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800FUUJNPK8RGKI07	1 – LEI	Pearl (Moor House 1) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800AAGWJ9I1A76T36	1 – LEI	Pearl (Moor House 2) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800UL2ISGIL5ZYH43	1 – LEI	Pearl (Moor House) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800GRV1G4NBVR2C83	1 – LEI	Pearl (Printworks) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	2138005OLWBASFXB7S08	1 – LEI	Pearl (Stockley Park) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138005IQK4DZ2N8UH82	1 – LEI	Pearl Group Secretariat Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009BU7B91VZP2M65	1 – LEI	Pearl MG Birmingham Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800EEKY3ZQDUYKV60	1 – LEI	Pearl MP Birmingham Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800V8BBPFHQH81386	1 – LEI	Pearl RLG Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138001ZOXFC79PEZS19	1 – LEI	Pearl Trustees Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	21380089ZAQLRGSTXL02	1 – LEI	PG Dormant (No 3) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800696N9OI66X5I18	1 – LEI	The London Life Association Limited	99 – Other	Company limited by guarantee	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800YF19MJX799LJ16	1 – LEI	Phoenix Life Pension Trust Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KSY8FMU99DE175	1 – LEI	Phoenix Pension Scheme (Trustees) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800C2PGN9I9C33L82	1 – LEI	Century Trustee Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800Y7LOTDOSDNEL59	1 – LEI	Evergreen Trustee Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800LXCCINIMTRFW79	1 – LEI	Corunna Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800LJMZ4QEJ8AUV97	1 – LEI	Pearl ULA Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800J33B28B2SKEF70	1 – LEI	Scottish Mutual Nominees Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800YBYX8PMP3QQM09	1 – LEI	PG Dormant (No 5) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800HTOXWIQA6XQW93	1 – LEI	Scottish Mutual Assurance Society (The)	99 – Other	Company limited by guarantee	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800EFHIV4NSSD3D48	1 – LEI	The Phoenix Life SCP Institution	99 – Other	Company limited by guarantee	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800GRORRHUWA5C435	1 – LEI	Alba LAS Pensions Management Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800R8PJ9EPBQLWP58	1 – LEI	The Pearl Martineau Galleries Limited Partnership	99 – Other	Limited Partnership	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

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APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800CPL9WKRMHYQN02	1 – LEI	The Pearl Martineau Limited Partnership	99 – Other	Limited Partnership	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	8800500	2 – Specific code	UK Commercial Property Estates (Reading) Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	213800JN4FQ1A9G8EU25	1 – LEI	UK Commercial Property REIT Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	213800W2EAL6W37KKU59	1 – LEI	UK Commercial Property Estates Holdings Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	213800521LWAVOZHUR12	1 – LEI	UK Commercial Property Holdings Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	213800DJ3JFFA1P8TS31	1 – LEI	UK Commercial Property Estates Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	213800FZM1LGPU46ZP56	1 – LEI	UK Commercial Property Nominee Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	213800J1T7J1138EOQ84	1 – LEI	UK Commercial Property GP Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	213800HDNBJ5VT5XQO97	1 – LEI	UKCPT Limited Partnership	99 – Other	Limited Partnership	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GG	2138009PGTUXA25AU785GB10012	2 – Specific code	UK Commercial Property Finance Holdings Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10013	2 – Specific code	Brixton Radlett Property Limited	99 – Other	Company limited by shares	2 – Non-mutual		44.73%	44.73%	44.73%		2 – Significant	44.73%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800XBTJGEIJPJIT08	1 – LEI	Phoenix ER2 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138006AVN3BGVP6FN70	1 – LEI	Abbey Life Trust Securities Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800QSPR2LRLU34T67	1 – LEI	Abbey Life Trustee Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	11418551	2 – Specific code	Phoenix SPV1 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	11418573	2 – Specific code	Phoenix SPV2 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	11418612	2 – Specific code	Phoenix SPV3 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	11418621	2 – Specific code	Phoenix SPV4 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	11720413	2 – Specific code	Phoenix ER5 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800B79QMNUVLO3I52	1 – LEI	Alcobendas Entrust Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	Criteria of influence: % capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Inclusion in the scope of group supervision: Yes/No	Date of decision if art.214 is applied	Group solvency calculation: Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	5493005FMXD1DF7H5U38	1 – LEI	Abbey Life Assurance Company Limited	1 – Life insurance undertaking	Company limited by shares	2 – Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	21380035Z7JKF61E6Y61	1 – LEI	Alba Life Trustees Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800JU1AQEHLXNFB22	1 – LEI	Phoenix SL Direct Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800IHCXV68Y68RU96	1 – LEI	Phoenix Wealth Trustee Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800YA6KBR5F6X5773	1 – LEI	Phoenix AW Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800PSSLEQR5IDJ351	1 – LEI	Phoenix Wealth Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800S88OB7OOLWB337	1 – LEI	Britannic Finance Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800J8J5RG7CXMLT47	1 – LEI	Britannic Group Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800OCFONM4ZNJBB35	1 – LEI	Britannic Money Investment Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800RGEZJWU7O2EQ55	1 – LEI	PG Dormant (No 6) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	10691596	2 – Specific code	PG Dormant (No 7) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	LP004819	2 – Specific code	The Moor House Limited Partnership	99 – Other	Limited Partnership	2 – Non-mutual		33.27%	33.27%	33.27%		2 – Significant	33.27%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	4130878	2 – Specific code	Moor House General Partner Limited	99 – Other	Limited Partnership	2 – Non-mutual		33.30%	33.30%	33.30%		2 – Significant	33.30%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800RUJKNJ1A9ZX173	1 – LEI	Phoenix Unit Trust Managers Limited	14 – UCITS management companies as defined in Article 1 (54) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		4 – Method 1: Sectoral rules
GB	213800ZE7DJL9NPP7P54	1 – LEI	Century Group Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800VUT844OO5BG366	1 – LEI	CH Management Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800F4I4AWU6NBME19	1 – LEI	Cityfourinc	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800YR5DXOHV9PG825	1 – LEI	Clearfol Investment Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800CUYV3HL17JP515	1 – LEI	Phoenix Group Employee Benefit Trust	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
JE	213800PRI1Y9YF64UR32	1 – LEI	IH (Jersey) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800YSR6GTJ8MVUS19	1 – LEI	Impala Holdings Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800MQMHVIR9ZA1Y57	1 – LEI	London Life Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800WTNFSQI1U7DV20	1 – LEI	NPI Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
IE	635400GBPN5HTTIVVH83	1 – LEI	Mutual Securitisation Public Limited Company	99 – Other	Company limited by shares	1 – Mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009129G12OFZWC28	1 – LEI	NP Life Holdings Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800QU1FBSLX89Q242	1 – LEI	National Provident Life Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	21380067P35533CPS717	1 – LEI	Pearl Assurance Group Holdings Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800CZWH4VG2X7HP11	1 – LEI	PA (GI) Limited	2 – Non life insurance undertaking	Company limited by shares	2 – Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800NH6RYZBJ6K5C11	1 – LEI	Pearl AL Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800DJMETF2ALADE56	1 – LEI	Phoenix & London Assurance Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800YXNP7NQGER8E10	1 – LEI	Phoenix Customer Care Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138007DV547Q2B7MR04	1 – LEI	Phoenix ER1 Limited	11 – Non-regulated undertaking carrying out financial activities as defined in Article 1 (52) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		4 – Method 1: Sectoral rules
GB	21380039WGL689JN6E44	1 – LEI	Phoenix ER3 Limited	11 – Non-regulated undertaking carrying out financial activities as defined in Article 1 (52) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		4 – Method 1: Sectoral rules
GB	213800ILIUK3NF5H7465	1 – LEI	Phoenix ER4 Limited	11 – Non-regulated undertaking carrying out financial activities as defined in Article 1 (52) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		4 – Method 1: Sectoral rules
KY	21380031B1D56JRCE375	1 – LEI	Phoenix Group Holdings	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800PO6LOTMSXHAP71	1 – LEI	Pearl Group Holdings (No. 1) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	2138002124DJU5NAJB47	1 – LEI	Pearl Group Holdings (No. 2) Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
IE	213800HW7LORF5UQUW14	1 – LEI	PGH Capital Public Limited Company	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10007	2 – Specific code	PGH (LC1) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10005	2 – Specific code	PGH (LC2) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800TBZW26HVJ7YD19	1 – LEI	PGH (LCA) Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800639F2IYJN5LX30	1 – LEI	PGH (LCB) Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	2138009PGTUXA25AU785GB10009	2 – Specific code	PGH (MC1) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10010	2 – Specific code	PGH (MC2) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138001P49OLAEU33T68	1 – LEI	Phoenix Group Holdings plc	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		n/a	n/a	n/a		n/a	n/a	1 – Included in the scope		1 – Method 1: Full consolidation
GB	2138009PGTUXA25AU785GB10008	2 – Specific code	PGH (TC1) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10006	2 – Specific code	PGH (TC2) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138005CNV9TY74WAR28	1 – LEI	Pearl Group Management Services Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800ZG6QXSK9G9GO74	1 – LEI	PGMS (Glasgow) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
IE	213800DP8RHURBWQUW31	1 – LEI	PGMS (Ireland) Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
IE	213800XE94GLGH5TUQ16	1 – LEI	PGMS (Ireland) Holdings Unlimited Company	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KR6QUMTDIX5H91	1 – LEI	Pearl Group Services Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800GXSEN5TJWQMI72	1 – LEI	PGS 2 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785	1 – LEI	Phoenix Life Holdings Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800LHZHSXHFZ59970	1 – LEI	Phoenix Life Assurance Limited	1 – Life insurance undertaking	Company limited by shares	2 – Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	2138005INFYUNFGXD528	1 – LEI	Pearl Life Holdings Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	213800LA8MQUY21IG777	1 – LEI	Phoenix Life Insurance Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800F8BC7QS1SGPG53	1 – LEI	Phoenix Life Limited	1 – Life insurance undertaking	Company limited by shares	2 – Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	2138007JS9TEWB48XZ26	1 – LEI	Pearl Life Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800Z38YTTKT3C9L87	1 – LEI	Phoenix Pensions Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138002CJZVH844BO431	1 – LEI	PG Dormant (No 4) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800JTP4IW1CLE8Q08	1 – LEI	Phoenix Pensions Trustee Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800F9J1GCM4FMTU87	1 – LEI	Pearl Customer Care Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KF69UDXM4ZE284	1 – LEI	Pearl RLH Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
US	213800NASW8ZHVZ3U265	1 – LEI	Pearl (WP) Investments LLC	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138003PPIEA27377A59	1 – LEI	SunLife Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800O1YBZJ7WJK2567	1 – LEI	SL Liverpool PLC	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800ZILLOABHU4ZT66	1 – LEI	Scottish Mutual Assurance Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800UXTAJKGRTYZR73	1 – LEI	Scottish Mutual Customer Care Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800LFFJ5UNTAEZK91	1 – LEI	Scottish Mutual Pension Funds Investment Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800HVX64Z6SADYQ50	1 – LEI	Phoenix SCP Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138001Q4BGZ3QASNG93	1 – LEI	Impala Loan Company 1 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800H548923LR12H43	1 – LEI	SPL (Holdings) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	2138005L17YPC9MYB770	1 – LEI	SPL (Holdings 1) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	2138005P7ZYYWWBCRY26	1 – LEI	Phoenix SCP Pensions Trustees Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800OHBY9DMQUET391	1 – LEI	Phoenix SCP Trustees Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800XE3S51YKKDFC05	1 – LEI	Phoenix Wealth Holdings Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	213800NH2VPBDG1QO657	1 – LEI	Zilmer Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	549300CCUJ1BP6N2ZJ02	1 – LEI	Standard Life Lifetime Mortgages Limited	8 – Credit institution, investment firm and financial institution	Company limited by shares	2 – Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		4 – Method 1: Sectoral rules
GB	RZJMLXIELM2LIX763187	1 – LEI	Standard Life Pension Funds Limited	1 – Life insurance undertaking	Company limited by shares	2 – Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
IE	MU1J7DTC8IC8VMFT8818	1 – LEI	Standard Life International Designated Activity Company	1 – Life insurance undertaking	Company limited by shares	2 – Non-mutual	Central Bank of Ireland	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14	1 – LEI	Standard Life Assurance Limited	1 – Life insurance undertaking	Company limited by shares	2 – Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	21380067BSRUHB4X5Y24	1 – LEI	Standard Life Assets and Employee Services Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	0TMBS544NMO7GLCE7H90GB00024	2 – Specific code	Vebnet (Holdings) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	0TMBS544NMO7GLCE7H90GB00019	2 – Specific code	Vebnet Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00008	2 – Specific code	SLACOM (No. 8) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00009	2 – Specific code	SLACOM (No. 9) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00007	2 – Specific code	SLACOM (No. 10) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB10023	2 – Specific code	3 St Andrew Square Apartments Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00033	2 – Specific code	G Park Management Company Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00066	2 – Specific code	Lake Meadows Management Company Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB10024	2 – Specific code	SLIF Property Investment LP Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	213800BKB33U8U4K4M34	1 – LEI	Standard Life Trustee Company Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00013	2 – Specific code	Iceni Nominees (No. 2) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00025	2 – Specific code	Inhoco 3107 Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PGH GROUP CONTINUED
APPENDIX 1.7 – S.32.01.22 UNDERTAKINGS IN THE SCOPE OF THE GROUP CONTINUED

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	923M5RA2I1X3IO5NGM14GB00032	2 – Specific code	SL (NEWCO) Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00036	2 – Specific code	Standard Life Agency Services Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00038	2 – Specific code	Standard Life Investment Funds Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00076	2 – Specific code	Standard Life Master Trust Co. Ltd	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00035	2 – Specific code	Standard Life Property Company Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB00028	2 – Specific code	Welbrent Property Investment Company Limited	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14GB10025	2 – Specific code	ASI Phoenix Fund Financing SCSp (PLFF)	99 – Other	Limited Partnership	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II
GB	923M5RA2I1X3IO5NGM14GB10026	2 – Specific code	Standard Life Capital Infrastructure I L.P.	99 – Other	Limited Partnership	2 – Non-mutual		26.30%	26.30%	26.30%		2 – Significant	26.30%	1 – Included in the scope		5 – Method 2: Solvency II
LU	923M5RA2I1X3IO5NGM14LU00001	2 – Specific code	Inesia SA	99 – Other	Company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		5 – Method 2: Solvency II

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL
APPENDIX 2.1 – S.02.01.02 BALANCE SHEET

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	36,128
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**27,277,445**
Property (other than for own use)	R0080	346,146
Holdings in related undertakings, including participations	R0090	8,855,855
Equities	R0100	118,573
Equities – listed	R0110	115,543
Equities – unlisted	R0120	3,030
Bonds	R0130	13,612,823
Government Bonds	R0140	7,072,211
Corporate Bonds	R0150	4,853,554
Structured notes	R0160	909
Collateralised securities	R0170	1,686,150
Collective Investments Undertakings	R0180	3,248,576
Derivatives	R0190	1,030,000
Deposits other than cash equivalents	R0200	65,472
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	20,903,686
Loans and mortgages	**R0230**	**2,309,734**
Loans on policies	R0240	2,037
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	2,307,697
Reinsurance recoverables from:	**R0270**	**7,165,457**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	1,681,033
Health similar to life	R0320	71,489
Life excluding health and index-linked and unit-linked	R0330	1,609,544
Life index-linked and unit-linked	R0340	5,484,424
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	7,598
Reinsurance receivables	R0370	41,408
Receivables (trade, not insurance)	R0380	522,609
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	209,534
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**58,473,599**

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED
APPENDIX 2.1 – S.02.01.02 BALANCE SHEET CONTINUED

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**23,756,344**
Technical provisions – health (similar to life)	**R0610**	**123,097**
TP calculated as a whole	R0620	
Best estimate	R0630	123,097
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**23,633,247**
TP calculated as a whole	R0660	
Best estimate	R0670	23,519,270
Risk margin	R0680	113,977
TP – index-linked and unit-linked	**R0690**	**26,042,303**
TP calculated as a whole	R0700	26,269,535
Best estimate	R0710	(227,232)
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	70,611
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	339,585
Deferred tax liabilities	R0780	267,046
Derivatives	R0790	366,514
Debts owed to credit institutions	R0800	965,987
Financial liabilities other than debts owed to credit institutions	R0810	1,548,750
Insurance & intermediaries payables	R0820	470,438
Reinsurance payables	R0830	15,848
Payables (trade, not insurance)	R0840	197,067
Subordinated liabilities	**R0850**	**217,155**
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	217,155
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**54,257,649**
Excess of assets over liabilities	**R1000**	**4,215,951**

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED
APPENDIX 2.2 – S.05.01.02 PREMIUMS, CLAIMS AND EXPENSE BY LINE OF BUSINESS

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	20,662	55,926	924,481	1,449,695				227,094	**2,677,858**
Reinsurers' share	R1420	345	3,071	501,936	310,905				165,623	**981,879**
Net	**R1500**	**20,318**	**52,855**	**422,546**	**1,138,790**				**61,471**	**1,695,980**
Premiums earned										
Gross	R1510	20,662	55,926	924,481	1,449,695				227,094	**2,677,858**
Reinsurers' share	R1520	345	3,071	501,936	310,905				165,623	**981,879**
Net	**R1600**	**20,318**	**52,855**	**422,546**	**1,138,790**				**61,471**	**1,695,980**
Claims incurred										
Gross	R1610	13,544	1,272,886	2,000,595	828,015				455,626	**4,570,666**
Reinsurers' share	R1620	4,324	79,868	932,126	373,603				155,932	**1,545,852**
Net	**R1700**	**9,220**	**1,193,019**	**1,068,469**	**454,412**				**299,694**	**3,024,814**
Changes in other technical provisions										
Gross	R1710	4,852	1,343,554	2,335,381	(2,452,618)				2,203,328	**3,434,497**
Reinsurers' share	R1720	5,580	(134,236)	704,171	(179,685)				–	**395,830**
Net	**R1800**	(728)	1,477,790	1,631,210	(2,272,933)				2,203,328	**3,038,667**
Expenses incurred	**R1900**	**6,834**	**84,772**	**174,656**	**194,157**				**50,280**	**510,699**
Other expenses	R2500									
Total expenses	**R2600**									**510,699**

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED
APPENDIX 2.3 – S.12.01.02 LIFE AND HEALTH SLT TECHNICAL PROVISIONS

			Index-linked and unit-linked insurance		
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees
		C0020	C0030	C0040	C0050
Technical provisions calculated as a whole	**R0010**		**24,427,584**		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020		5,258,288		
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	**R0030**	**11,354,562**		**(243,116)**	**74,320**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	118,066		6,682	22,627
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090	11,236,496		(249,798)	51,692
Risk Margin	**R0100**	**203,958**	**68,512**		
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0110				
Best estimate	R0120	(236,377)		(52,849)	(10,722)
Risk margin	R0130	(193,907)	(68,512)		
Technical provisions – total	**R0200**	**11,128,236**	**24,195,217**		

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED
APPENDIX 2.3 – S.12.01.02 LIFE AND HEALTH SLT TECHNICAL PROVISIONS CONTINUED

		Other life insurance					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
		C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	**R0010**					**1,841,951**	**26,269,535**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020					196,827	**5,455,115**
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**10,703,006**	**2,225,536**		**(58,869)**	**24,055,439**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		895,616	621,248		(25,387)	**1,638,853**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		9,807,389	1,604,288		(33,481)	**22,416,586**
Risk Margin	**R0100**	**674,488**				**9,510**	**956,468**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(339,800)	(114,628)		(9,025)	**(763,401)**
Risk margin	R0130	(571,708)				(8,364)	**(842,491)**
Technical provisions – total	**R0200**	**12,576,894**				**1,775,203**	**49,675,550**

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED
APPENDIX 2.3 – S.12.01.02 LIFE AND HEALTH SLT TECHNICAL PROVISIONS CONTINUED

		Health insurance (direct business)					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**124,507**				**124,507**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		71,489				**71,489**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		53,018				**53,018**
Risk Margin	**R0100**	**8,672**					**8,672**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(1,409)				**(1,409)**
Risk margin	R0130	(8,672)					**(8,672)**
Technical provisions – total	**R0200**	**123,097**					**123,097**

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED

APPENDIX 2.4 – S.22.01.21 IMPACT OF LONG-TERM GUARANTEES AND TRANSITIONAL MEASURES

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
Technical provisions	**R0010**	49,798,647	1,615,973			919,907
Basic own funds	**R0020**	4,081,409	(1,194,913)			(851,115)
Eligible own funds to meet Solvency Capital Requirement	**R0050**	4,081,409	(1,194,913)			(851,115)
Solvency Capital Requirement	**R0090**	2,910,588	(66,357)			770,449
Eligible own funds to meet Minimum Capital Requirement	**R0100**	3,973,655	(1,191,595)			(889,637)
Minimum Capital Requirement	**R0110**	727,647	(16,589)			192,612

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED

APPENDIX 2.5 – S.23.01.01 – OWN FUNDS

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	69,088	69,088			
Share premium account related to ordinary share capital	R0030	546	546			
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070	1,562,932	1,562,932			
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	2,195,560	2,195,560			
Subordinated liabilities	R0140	217,155			217,155	
An amount equal to the value of net deferred tax assets	R0160	36,128				36,128
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	4,081,409	3,828,126		217,155	36,128

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED
APPENDIX 2.5 – S.23.01.01 – OWN FUNDS CONTINUED

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	4,081,409	3,828,126		217,155	36,128
Total available own funds to meet the MCR	R0510	4,045,280	3,828,126		217,155	
Total eligible own funds to meet the SCR	R0540	4,081,409	3,828,126		217,155	36,128
Total eligible own funds to meet the MCR	R0550	3,973,655	3,828,126		145,529	
SCR	R0580	2,910,588				
MCR	R0600	727,647				
Ratio of eligible own funds to SCR	R0620	140%				
Ratio of eligible own funds to MCR	R0640	546%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	4,215,951
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	1,668,694
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	351,697
Reconciliation reserve	R0760	2,195,560
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	257,444
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	257,444

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED

APPENDIX 2.6 – S.25.03.21 – SOLVENCY CAPITAL REQUIREMENT – FOR UNDERTAKINGS ON FULL INTERNAL MODEL

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	**C0020**	**C0030**
10700I	Market Spread Risk	1,049,805
11000I	Market risk excluding spread risk	1,143,575
19900I	Diversification within Market Risk	(204,912)
20000I	Counterparty Risk	133,344
30000I	Life underwriting Risk	1,500,227
70100I	Operational Risk	510,800
80150I	Other Risks	–
80190I	Other Risks	278,084
80200I	Non-dynamic management actions	(128,040)
80300I	Loss-absorbing capacity of deferred tax	(231,693)
80400I	Other Adjustments	1,897

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	4,053,086
Diversification	R0060	(1,142,498)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	**2,910,588**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**2,910,588**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(1,737,376)
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	(231,693)
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	1,253,065
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	1,211,235
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	987,549
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLL CONTINUED

APPENDIX 2.7 – S.28.01.01 – MINIMUM CAPITAL REQUIREMENT – ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY

		Life activities	
MCR calculation Life		**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**
		C0050	**C0060**
Obligations with-profit participation – guaranteed benefits	R0210	5,592,954	
Obligations with-profit participation – future discretionary benefits	R0220	5,409,730	
Index-linked and unit-linked insurance obligations	R0230	20,557,879	
Other life (re)insurance and health (re)insurance obligations	R0240	10,958,650	
Total capital at risk for all life (re)insurance obligations	R0250		13,503,401

		Non-life activities	Life activities
		C0010	**C0040**
MCRNL Result	R0010		
MCRL Result	R0200		309,123

Overall MCR calculation		
		C0070
Linear MCR	R0300	**309,123**
SCR	R0310	2,910,588
MCR cap	R0320	1,309,765
MCR floor	R0330	727,647
Combined MCR	R0340	727,647
Absolute floor of the MCR	R0350	3,288
		C0070
Minimum Capital Requirement	**R0400**	**727,647**

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL
APPENDIX 3.1 – S.02.01.02 BALANCE SHEET

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	7,792
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**13,584,807**
Property (other than for own use)	R0080	37,391
Holdings in related undertakings, including participations	R0090	4,524,105
Equities	R0100	109,643
Equities – listed	R0110	105,466
Equities – unlisted	R0120	4,176
Bonds	R0130	3,930,426
Government Bonds	R0140	2,630,205
Corporate Bonds	R0150	1,263,999
Structured notes	R0160	2,685
Collateralised securities	R0170	33,537
Collective Investments Undertakings	R0180	4,344,266
Derivatives	R0190	613,788
Deposits other than cash equivalents	R0200	25,188
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	300,055
Loans and mortgages	**R0230**	**19,477**
Loans on policies	R0240	7,302
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	12,175
Reinsurance recoverables from:	**R0270**	**2,520,797**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	1,026,464
Health similar to life	R0320	1,722
Life excluding health and index-linked and unit-linked	R0330	1,024,742
Life index-linked and unit-linked	R0340	1,494,333
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	562
Reinsurance receivables	R0370	112
Receivables (trade, not insurance)	R0380	81,231
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	83,033
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**16,597,865**

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED
APPENDIX 3.1 – S.02.01.02 BALANCE SHEET CONTINUED

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**11,839,212**
Technical provisions – health (similar to life)	**R0610**	**2,105**
TP calculated as a whole	R0620	
Best estimate	R0630	2,105
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**11,837,107**
TP calculated as a whole	R0660	
Best estimate	R0670	11,811,373
Risk margin	R0680	25,735
TP – index-linked and unit-linked	**R0690**	**1,824,960**
TP calculated as a whole	R0700	1,758,417
Best estimate	R0710	64,524
Risk margin	R0720	2,019
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	10,136
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	66,384
Derivatives	R0790	326,838
Debts owed to credit institutions	R0800	387,236
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	87,621
Reinsurance payables	R0830	9,158
Payables (trade, not insurance)	R0840	32,634
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**14,584,180**

Excess of assets over liabilities	**R1000**	**2,013,685**

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED
APPENDIX 3.2 – S.05.01.02 PREMIUMS, CLAIMS AND EXPENSE BY LINE OF BUSINESS

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	771	41,636	6,407	188,589				106	**237,509**
Reinsurers' share	R1420	734	(10)	5,473	2,961					**9,158**
Net	**R1500**	**37**	**41,647**	**934**	**185,628**				**106**	**228,352**
Premiums earned										
Gross	R1510	771	41,636	6,407	188,589				106	**237,509**
Reinsurers' share	R1520	734	(10)	5,473	2,961					**9,158**
Net	**R1600**	**37**	**41,647**	**934**	**185,628**				**106**	**228,352**
Claims incurred										
Gross	R1610	77	814,016	171,587	237,529				12,983	**1,236,191**
Reinsurers' share	R1620	8	(167)	135,207	116,454					**251,502**
Net	**R1700**	**68**	**814,184**	**36,380**	**121,075**				**12,983**	**984,690**
Changes in other technical provisions										
Gross	R1710	211	953,420	249,398	182,206				19,398	**1,404,633**
Reinsurers' share	R1720	–	–	205,014	148,164				–	**353,178**
Net	**R1800**	211	953,420	44,384	34,042				19,398	**1,051,455**
Expenses incurred	**R1900**	**31**	**66,773**	**9,277**	**26,389**					**102,469**
Other expenses	R2500									
Total expenses	**R2600**									**102,469**

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED
APPENDIX 3.3 – S.12.01.02 LIFE AND HEALTH SLT TECHNICAL PROVISIONS

			Index-linked and unit-linked insurance		
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees
		C0020	C0030	C0040	C0050
Technical provisions calculated as a whole	**R0010**		**1,758,417**		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020		1,458,374		
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	**R0030**	**9,304,371**		**(9,765)**	**49,349**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080			35,959	
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090	9,304,371		(45,724)	49,349
Risk Margin	**R0100**	**303,439**	**4,199**		
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0110				
Best estimate	R0120	(299,422)		(252)	
Risk margin	R0130	(285,929)	(2,180)		
Technical provisions – total	**R0200**	**9,022,460**	**1,799,768**		

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED
APPENDIX 3.3 – S.12.01.02 LIFE AND HEALTH SLT TECHNICAL PROVISIONS CONTINUED

		Other life insurance					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
		C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	**R0010**						**1,758,417**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						**1,458,374**
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**2,535,895**	**197,026**		**137,869**	**12,214,745**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		1,024,742				**1,060,701**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		1,511,153	197,026		137,869	**11,154,044**
Risk Margin	**R0100**	**120,235**				**1,079**	**428,952**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(29,831)	(6,148)		(3,194)	**(338,848)**
Risk margin	R0130	(112,162)				(928)	**(401,199)**
Technical provisions – total	**R0200**	**2,705,014**				**134,825**	**13,662,067**

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED
APPENDIX 3.3 – S.12.01.02 LIFE AND HEALTH SLT TECHNICAL PROVISIONS CONTINUED

		Health insurance (direct business)					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**2,114**				**2,114**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		1,722				**1,722**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		392				**392**
Risk Margin	**R0100**						
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(9)				**(9)**
Risk margin	R0130						
Technical provisions – total	**R0200**	**2,105**					**2,105**

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED

APPENDIX 3.4 – S.22.01.21 IMPACT OF LONG TERM GUARANTEES AND TRANSITIONAL MEASURES

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
Technical provisions	**R0010**	13,664,172	740,056			133,293
Basic own funds	**R0020**	1,597,534	(546,733)			(133,293)
Eligible own funds to meet Solvency Capital Requirement	**R0050**	1,597,534	(546,733)			(133,293)
Solvency Capital Requirement	**R0090**	1,213,804	39,453			84,746
Eligible own funds to meet Minimum Capital Requirement	**R0100**	1,589,742	(546,733)			(133,293)
Minimum Capital Requirement	**R0110**	303,451	9,863			21,186

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED
APPENDIX 3.5 – S.23.01.01 – OWN FUNDS

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	342,109	342,109			
Share premium account related to ordinary share capital	R0030	40,716	40,716			
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070	947,488	947,488			
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	259,429	259,429			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	7,792				7,792
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	1,597,534	1,589,742			7,792

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED
APPENDIX 3.5 – S.23.01.01 – OWN FUNDS CONTINUED

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	1,597,534	1,589,742			7,792
Total available own funds to meet the MCR	R0510	1,589,742	1,589,742			
Total eligible own funds to meet the SCR	R0540	1,597,534	1,589,742			7,792
Total eligible own funds to meet the MCR	R0550	1,589,742	1,589,742			
SCR	R0580	1,213,804				
MCR	R0600	303,451				
Ratio of eligible own funds to SCR	R0620	132%				
Ratio of eligible own funds to MCR	R0640	524%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	2,013,685
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	1,338,105
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	416,151
Reconciliation reserve	R0760	259,429
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	16,595
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	16,595

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED

APPENDIX 3.6 – S.25.03.21 – SOLVENCY CAPITAL REQUIREMENT – FOR UNDERTAKINGS ON FULL INTERNAL MODELS

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	**C0020**	**C0030**
10700I	Market Spread Risk	480,516
11000I	Market risk excluding spread risk	361,567
19900I	Diversification within Market Risk	(72,067)
20000I	Counterparty Risk	14,731
30000I	Life underwriting Risk	757,437
70100I	Operational Risk	179,006
80190I	Other Risks	13,206
80200I	Non-dynamic management actions	(15,150)
80300I	Loss-absorbing capacity of deferred tax	(45,733)

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	1,673,511
Diversification	R0060	(459,708)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	**1,213,804**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**1,213,804**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(761,637)
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	(45,733)
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	179,951
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	1,050,851
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	218,132
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PLAL CONTINUED

APPENDIX 3.7 – S.28.01.01 – MINIMUM CAPITAL REQUIREMENT – ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY

		Life activities	
MCR calculation Life		**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**
		C0050	**C0060**
Obligations with-profit participation – guaranteed benefits	R0210	6,621,871	
Obligations with-profit participation – future discretionary benefits	R0220	2,497,264	
Index-linked and unit-linked insurance obligations	R0230	328,608	
Other life (re)insurance and health (re)insurance obligations	R0240	1,667,879	
Total capital at risk for all life (re)insurance obligations	R0250		3,003,537

		Non-life activities	**Life activities**
		C0010	**C0040**
MCRNL Result	R0010		
MCRL Result	R0200		154,580

Overall MCR calculation

		C0070
Linear MCR	R0300	**154,580**
SCR	R0310	1,213,804
MCR cap	R0320	546,212
MCR floor	R0330	303,451
Combined MCR	R0340	303,451
Absolute floor of the MCR	R0350	3,288
		C0070
Minimum Capital Requirement	**R0400**	**303,451**

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – ALAC
APPENDIX 4.1 – S.02.01.02 BALANCE SHEET QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**3,995**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	3,995
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	2
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	5
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**4,002**

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – ALAC CONTINUED
APPENDIX 4.1 – S.02.01.02 BALANCE SHEET QRT CONTINUED

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions – health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP – index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**0**
Excess of assets over liabilities	**R1000**	**4,002**

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – ALAC CONTINUED

APPENDIX 4.2 – S.05.01.02 PREMIUMS, CLAIMS AND EXPENSE BY LINE OF BUSINESS QRT

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	1,344	135	48,996	218,722				72,267	**341,464**
Reinsurers' share	R1420	1,344	20	622	229,254				72,256	**303,496**
Net	**R1500**		**114**	**48,374**	**(10,532)**				**11**	**37,968**
Premiums earned										
Gross	R1510	1,344	135	48,996	218,722				72,267	**341,464**
Reinsurers' share	R1520	1,344	20	622	229,254				72,256	**303,496**
Net	**R1600**		**114**	**48,374**	**(10,532)**				**11**	**37,968**
Claims incurred										
Gross	R1610	1,775	3,632	709,027	304,605				37,300	**1,056,340**
Reinsurers' share	R1620	1,775	123	5,419	318,354				37,267	**362,937**
Net	**R1700**		**3,509**	**703,609**	**(13,749)**				**33**	**693,403**
Changes in other technical provisions										
Gross	R1710	7,393	3,804	905,923	(186,684)				–	**730,436**
Reinsurers' share	R1720	4,169	292	(48,377)	(205,967)				–	**(249,883)**
Net	**R1800**	3,224	3,512	954,300	19,283				–	**980,319**
Expenses incurred	**R1900**			63,091	(10,130)					**52,961**
Other expenses	R2500									
Total expenses	**R2600**									**52,961**

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – ALAC CONTINUED
APPENDIX 4.3 – S.23.01.01 – OWN FUNDS QRT

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	30,500	30,500			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	(26,498)	(26,498)			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	4,002	4,002			

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – ALAC CONTINUED
APPENDIX 4.3 – S.23.01.01 – OWN FUNDS QRT CONTINUED

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	4,002	4,002			
Total available own funds to meet the MCR	R0510	4,002	4,002			
Total eligible own funds to meet the SCR	R0540	4,002	4,002			
Total eligible own funds to meet the MCR	R0550	4,002	4,002			
SCR	R0580					
MCR	R0600	3,288				
Ratio of eligible own funds to SCR	R0620	0%				
Ratio of eligible own funds to MCR	R0640	122%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	4,002
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	30,500
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	(26,498)
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – ALAC CONTINUED

APPENDIX 4.4 – S.28.01.01 – MINIMUM CAPITAL REQUIREMENT – ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY

		Life activities	
MCR calculation Life		**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**
		C0050	**C0060**
Obligations with-profit participation – guaranteed benefits	R0210		
Obligations with-profit participation – future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	**C0040**
MCRNL Result	R0010		
MCRL Result	R0200		

Overall MCR calculation

		C0070
Linear MCR	R0300	
SCR	R0310	
MCR cap	R0320	
MCR floor	R0330	
Combined MCR	R0340	
Absolute floor of the MCR	R0350	3,288
		C0070
Minimum Capital Requirement	**R0400**	**3,288**

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PA(GI) (UNAUDITED)
APPENDIX 5.1 – S.02.01.02 BALANCE SHEET QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**76,445**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	76,445
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	8,240
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**84,685**

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PA(GI) (UNAUDITED) CONTINUED
APPENDIX 5.1 – S.02.01.02 BALANCE SHEET QRT CONTINUED

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions – health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP – index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	17,388
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	1
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	770
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**18,160**

Excess of assets over liabilities	**R1000**	**66,525**

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PA(GI) (UNAUDITED) CONTINUED
APPENDIX 5.2 – S.05.01.02 PREMIUMS, CLAIMS AND EXPENSE BY LINE OF BUSINESS QRT

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross – Direct Business	R0110																	0
Gross – Proportional reinsurance accepted	R0120																	0
Gross – Non-proportional reinsurance accepted	R0130																	0
Reinsurers' share	R0140																	0
Net	**R0200**																	0
Premiums earned																		
Gross – Direct Business	R0210																	0
Gross – Proportional reinsurance accepted	R0220																	0
Gross – Non-proportional reinsurance accepted	R0230																	0
Reinsurers' share	R0240																	0
Net	**R0300**																	0
Claims incurred																		
Gross – Direct Business	R0310																	0
Gross – Proportional reinsurance accepted	R0320																	0
Gross – Non-proportional reinsurance accepted	R0330																	0
Reinsurers' share	R0340																	0
Net	**R0400**																	0
Changes in other technical provisions																		
Gross – Direct Business	R0410																	0
Gross – Proportional reinsurance accepted	R0420																	0
Gross – Non-proportional reinsurance accepted	R0430																	0
Reinsurers' share	R0440																	0
Net	**R0500**																	0
Expenses incurred	**R0550**												8,188					**8,188**
Other expenses	R1200																	
Total expenses	**R1300**																	**8,188**

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PA(GI) (UNAUDITED) CONTINUED
APPENDIX 5.3 – S.23.01.01 – OWN FUNDS QRT

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	3,000	3,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	63,525	63,525			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	66,525	66,525			

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PA(GI) (UNAUDITED) CONTINUED

APPENDIX 5.3 – S.23.01.01 – OWN FUNDS QRT CONTINUED

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	66,525	66,525			
Total available own funds to meet the MCR	R0510	66,525	66,525			
Total eligible own funds to meet the SCR	R0540	66,525	66,525			
Total eligible own funds to meet the MCR	R0550	66,525	66,525			
SCR	R0580	5,534				
MCR	R0600	3,288				
Ratio of eligible own funds to SCR	R0620	1202%				
Ratio of eligible own funds to MCR	R0640	2023%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	66,525
Own shares (held directly and indirectly)	**R0710**	
Foreseeable dividends, distributions and charges	**R0720**	
Other basic Own Fund items	**R0730**	3,000
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	
Reconciliation reserve	**R0760**	63,525
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	**R0770**	
Expected profits included in future premiums (EPIFP) – Non-life business	**R0780**	
Total Expected profits included in future premiums (EPIFP)	**R0790**	

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PA(GI) (UNAUDITED) CONTINUED

APPENDIX 5.4 – S.25.03.21 – SOLVENCY CAPITAL REQUIREMENT – FOR UNDERTAKINGS ON FULL INTERNAL MODELS

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10700I	Market Spread Risk	–
11000I	Market risk excluding spread risk	–
19900I	Diversification within Market Risk	–
20000I	Counterparty Risk	–
30000I	Life underwriting Risk	–
70100I	Operational Risk	5,534
80150I	Other Risks	–
80190I	Other Risks	–
80200I	Non-dynamic management actions	–
80300I	Loss-absorbing capacity of deferred tax	–
80400I	Other Adjustments	–

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	5,534
Diversification	R0060	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC		
Solvency capital requirement excluding capital add-on	R0200	**5,534**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**5,534**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions		
Amount/estimate of the overall loss-absorbing capacity of deferred taxes		
Total amount of Notional Solvency Capital Requirements for remaining part		
Total amount of Notional Solvency Capital Requirements for ring fenced funds		
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios		
Diversification effects due to RFF nSCR aggregation for article 304		

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) – PA(GI) (UNAUDITED) CONTINUED

APPENDIX 5.5 – S. 28.01.01 – MINIMUM CAPITAL REQUIREMENT – ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY

		Life activities	
MCR calculation Life		**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**
		C0050	**C0060**
Obligations with-profit participation – guaranteed benefits	R0210		
Obligations with-profit participation – future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	**Life activities**
		C0010	**C0040**
MCRNL Result	R0010		
MCRL Result	R0200		

Overall MCR calculation		
		C0070
Linear MCR	R0300	
SCR	R0310	5,534
MCR cap	R0320	2,490
MCR floor	R0330	1,383
Combined MCR	R0340	1,383
Absolute floor of the MCR	R0350	3,288
		C0070
Minimum Capital Requirement	**R0400**	**3,288**

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