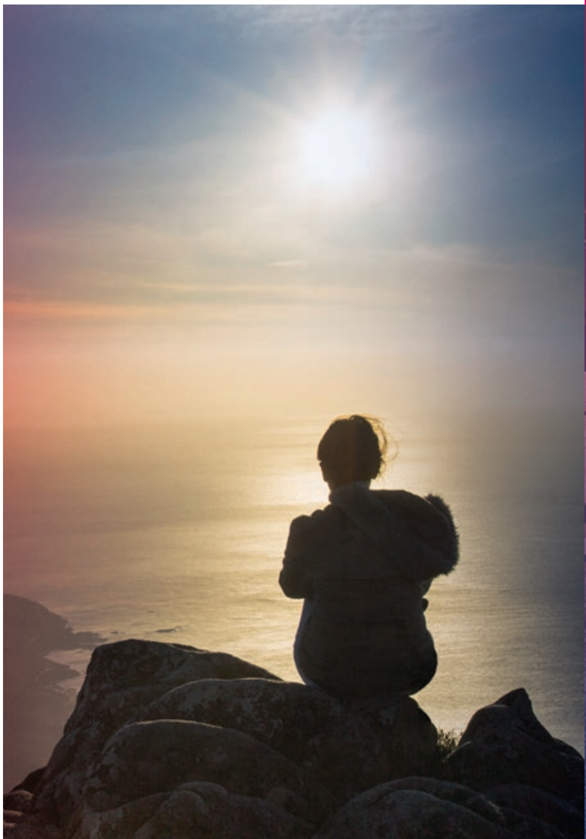
INSPIRING **CONFIDENCE** IN THE FUTURE

PHOENIX GROUP HOLDINGS PLC
ANNUAL REPORT & ACCOUNTS 2019



In this Report

STRATEGIC REPORT
What we do ... 2
The Phoenix Group timeline ... 4
Chairman's Statement ... 6
Group Chief Executive Officer's Report ... 8
Cash ... 12
Resilience ... 14
Growth ... 16
Our Markets ... 18
Our Operating Structure ... 22
Our Key Products ... 23
Our Business Segments ... 24
Our Business Model ... 26
Our Strategy and KPIs ... 30
Business Review ... 38
Risk Management ... 48
Reporting Statements ... 58
Stakeholder Engagement ... 60

CORPORATE GOVERNANCE
Chairman's Introduction ... 74
Board Structure ... 77
Board of Directors ... 78
Executive Management Team ... 80
Corporate Governance Report ... 81
  Board Leadership and Company Purpose ... 82
  Division of Responsibilities ... 88
  Composition, Succession and Evaluation ... 90
  Audit, Risk and Internal Control ... 92
Directors' Remuneration report ... 99
Directors' Report ... 131
Statement of Directors' Responsibilities ... 135

FINANCIALS
Independent Auditor's Report ... 137
IFRS Consolidated Financial Statements ... 147
Notes to the Consolidated Financial Statements ... 154
Parent Company Financial Statements ... 244
Notes to the Parent Company Financial Statements ... 247
Additional Life Company Asset Disclosures ... 255
Additional Capital Disclosures ... 262
Alternative Performance Measures ... 264

ADDITIONAL INFORMATION
Shareholder Information ... 266
Glossary ... 268
Forward-looking Statements ... 272

www. thephoenixgroup.com

Key Performance Indicators

£707m
OPERATING COMPANIES' CASH GENERATION
APM REM

£3.1bn
GROUP SOLVENCY II SURPLUS (ESTIMATED)

161%
GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)
APM

23.4p
FINAL DIVIDEND PER SHARE

£810m
OPERATING PROFIT
APM

94%
CUSTOMER SATISFACTION SCORE
REM
Phoenix Life only

71%
NET EASY CUSTOMER EFFORT SCORE
REM
Standard Life only

Other Performance Indicators

£116m
IFRS PROFIT AFTER TAX

£475m
INCREMENTAL LONG-TERM CASH GENERATION
APM

£158m
UK OPEN AND EUROPE NEW BUSINESS CONTRIBUTION
APM

£248bn
ASSETS UNDER ADMINISTRATION
APM

22%
FINANCIAL LEVERAGE RATIO
APM

All amounts throughout the report marked with REM are KPIs linked to Executive remuneration. See Directors' Remuneration Report on page 99.

All amounts throughout the report marked with APM are Alternative Performance Measures. Read more on page 264.

The acquisition of ReAssure Group plc referenced throughout this report is subject to regulatory approvals.

INSPIRING **CONFIDENCE** IN THE FUTURE

Phoenix Group is Europe's largest life and pensions consolidator.

We are committed to our purpose: To inspire confidence in the future.

We inspire confidence through our history and growth, through our track record of value creation, strategic and financial delivery and through continued positive engagement and outcomes for all our stakeholders.

Our culture is founded on a clear set of values: Passion, Responsibility, Growth, Courage and Difference.

Delivery of **Cash**, **Resilience** and **Growth** helps achieve our mission to improve outcomes for customers and deliver value for shareholders. Read more on pages 12 to 17.

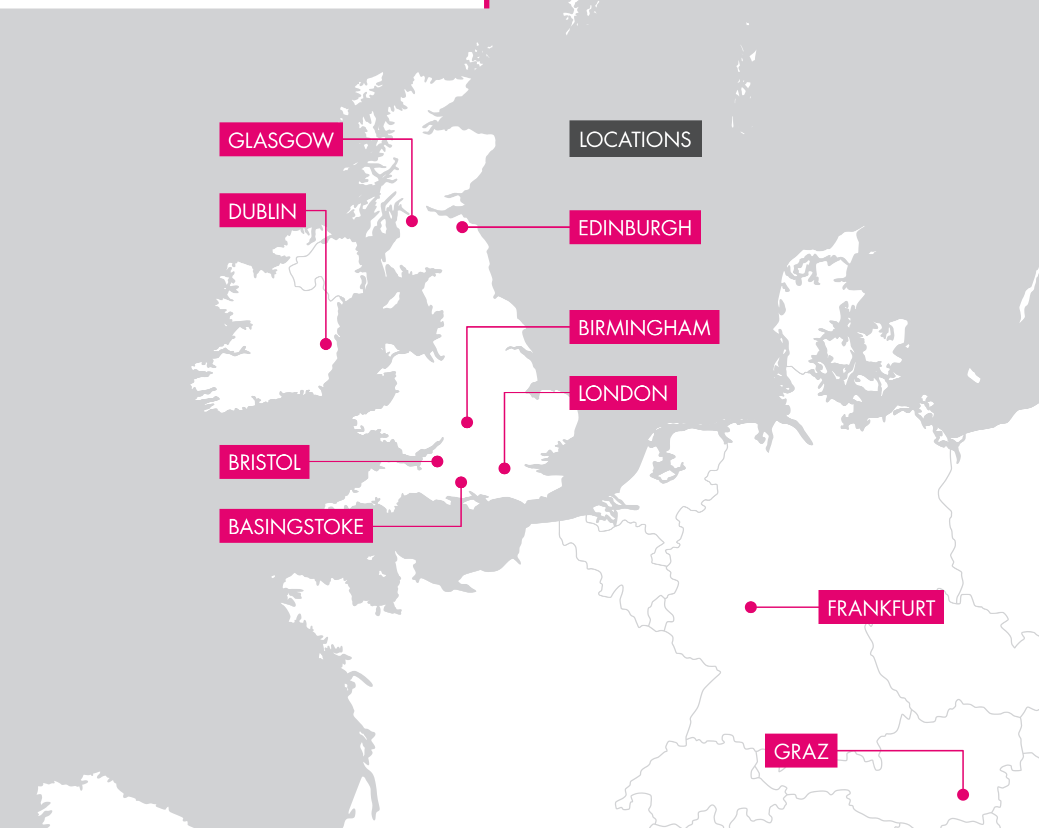
We are driven by our vision to be Europe's Leading Life Consolidator.

PHOENIX AT A GLANCE

OUR VISION
Become Europe's Leading Life Consolidator

OUR PURPOSE
Inspire confidence in the future

OUR MISSION
Improve outcomes for customers and deliver value for shareholders

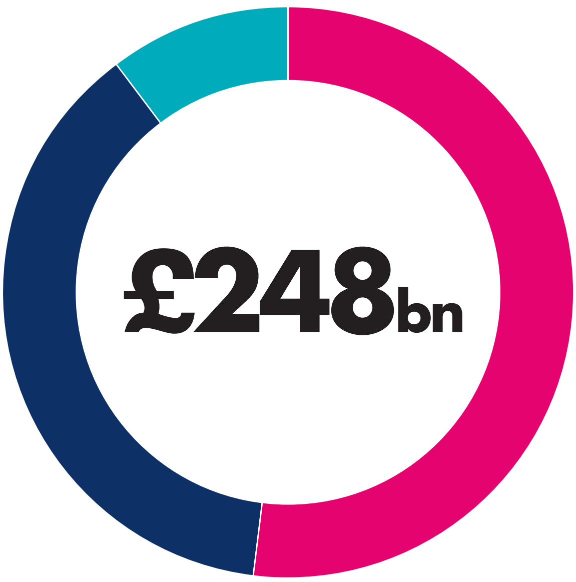


As the largest life and pensions consolidator in Europe, Phoenix is focused on the acquisition and management of closed life insurance and pension funds. This is our Heritage business.

Transactions in the bulk purchase annuity market offer a complementary source of growth for the Group and the management actions we deliver help increase and accelerate cash flows.

Alongside this, we have 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. This Open business is supported by the Strategic Partnership with Standard Life Aberdeen plc. We also have a market leading brand – SunLife – which sells a range of financial products specifically for the over 50s market.

GROUP ASSETS UNDER ADMINISTRATION



UK Heritage	£126bn
UK Open	£97bn
Europe	£25bn

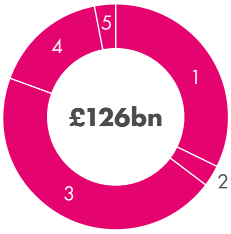
OUR THREE BUSINESS SEGMENTS

UK Heritage
Our UK Heritage business comprises products that are no longer actively marketed to customers. Phoenix is a leader in the safe and efficient management of its UK Heritage business.

UK Open
Our UK Open business comprises capital-light products that are actively marketed to customers. Phoenix is committed to growing its UK Open business.

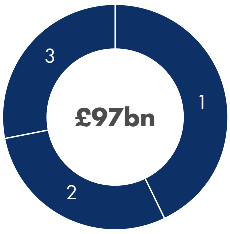
Europe
Our European business provides a platform for potential future consolidation. It contains both Open and Heritage products split across Germany and Ireland.

ASSETS UNDER ADMINISTRATION



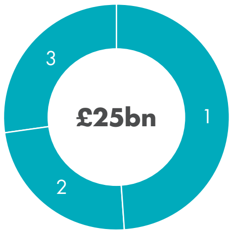
1. With-profits	32%
2. With-profit (supported)	3%
3. Unit linked	45%
4. Non-profit (annuities)	16%
5. Non-profit (protection, shareholder funds and other non-profit))	4%

Read more on page 24



1. Workplace	43%
2. Retail pensions	29%
3. Wrap	28%

Read more on page 25



1. Germany	49%
2. Ireland	23%
3. International Bond	28%

Read more on page 25

STRATEGIC PRIORITIES

01
IMPROVE CUSTOMER OUTCOMES
Improving customer outcomes is central to our vision of being Europe's Leading Life Consolidator.

Read more on page 30

02
DRIVE VALUE
In order to drive value, the Group looks to identify and undertake management actions which increase and accelerate cash flow.

Read more on page 32

03
MANAGE CAPITAL
We continue to focus on the effective management of our risks and the efficient allocation of capital against those risks.

Read more on page 34

04
ENGAGE COLLEAGUES
Our people are at the heart of our business and key to the successful growth of Phoenix Group.

Read more on page 36

OUR VALUES

Passion
Making a positive impact by caring about customers, colleagues and communities.

Responsibility
Doing the right thing by taking personal ownership.

Growth
Succeeding through learning, experimenting and adapting.

Courage
Innovating by challenging ourselves and others to do better.

Difference
Collaborating and finding strength through respecting and embracing new perspectives.

STAKEHOLDERS

Customers	Colleagues	Environment	Suppliers	Community	Investors	Government, Trade Bodies and Regulators

MAIN BRANDS

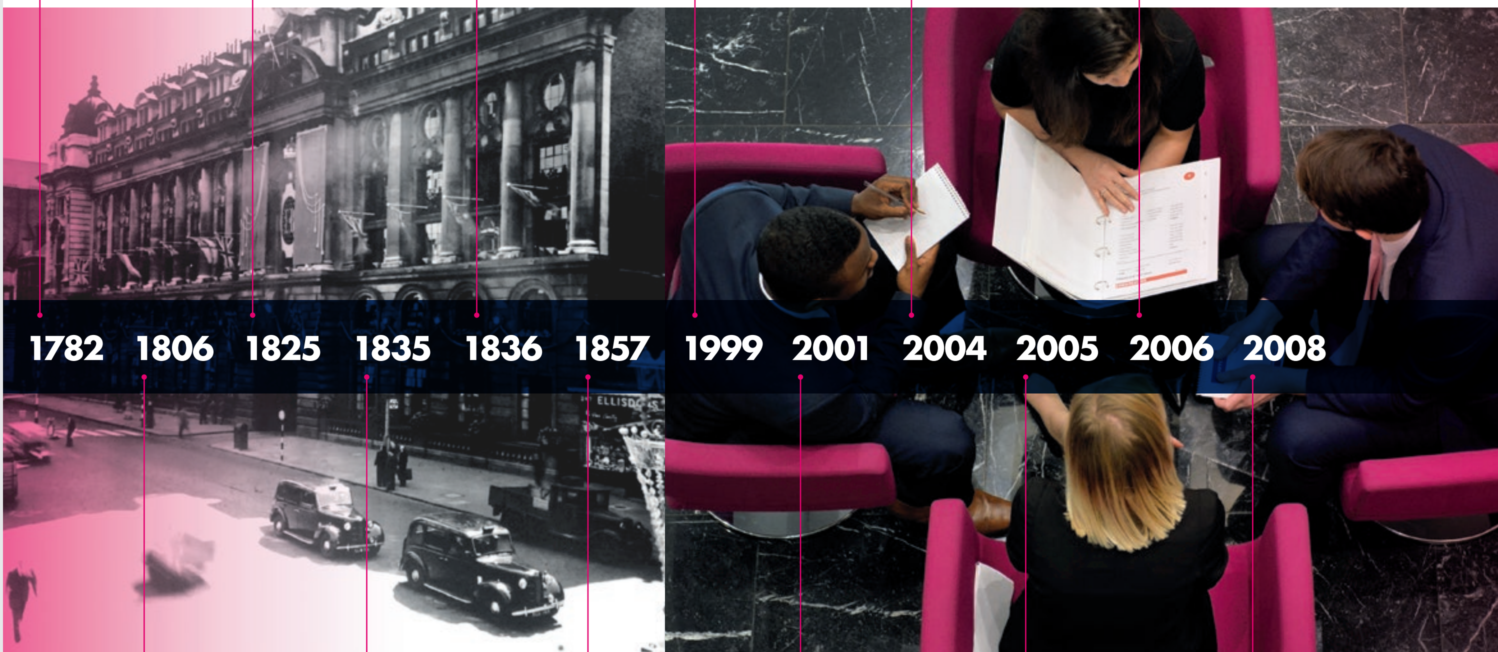
PHOENIX GROUP

Standard Life

SunLife

OUR HISTORY AT A GLANCE

We inspire confidence through our history and growth. Phoenix has been a recognised name in the insurance world since 1782. It has grown to become Europe's largest life and pensions consolidator.



1782 Phoenix Assurance established

1806 London Life established

1825 Standard Life Assurance established

1835 NPI established

1836 Edinburgh & Glasgow Assurance established

1857 Pearl Loan Company established

1999 Britannic acquires Alba Life

2001 Abbey National acquires Scottish Provident

2004 Resolution Life Group acquires UK life operations of Royal & Sun Alliance

Britannic acquires life operations of Allianz Cornhill

2005 Pearl Group created

Resolution Life Group merges with Britannic Group plc and becomes Resolution plc

2006 Resolution plc acquires Abbey National's life business

2008 Pearl Group acquires Resolution plc

2009
Liberty Acquisition Holdings (International) acquires Pearl Group

2010
Pearl Group renamed Phoenix Group Holdings and achieves Premium Listing on the London Stock Exchange

2012
Transferred approximately £5bn of annuity liabilities to Guardian Assurance

2013
Successful debt re-terming and equity raising of £250m

2014
Divestment of Ignis Asset Management

2015
Investment grade credit rating achieved from Fitch Ratings

2016
Successful completion of two acquisitions – AXA Wealth's pension and protection businesses and Abbey Life Assurance Company Limited

2018
Phoenix acquires Standard Life Assurance businesses and enhances strategic partnership with Standard Life Aberdeen PLC

10m
POLICIES

£248bn
ASSETS UNDER ADMINISTRATION

c.4,400
EMPLOYEES

2019
Phoenix announces the acquisition of ReAssure Group plc for a total consideration of £3.2bn

BUILDING A **SUSTAINABLE PHOENIX**

Nicholas Lyons
Chairman

2019 was a year of significant achievement for Phoenix in which the Group met all of its strategic objectives and took another major step forward in its growth journey by announcing the acquisition of ReAssure Group plc.

The acquisition confirms Phoenix's position as the largest life and pensions consolidator in Europe. The additional cash flows, skills and scale the acquisition brings will enhance Phoenix's ability to benefit from a range of available growth opportunities and provide increased sustainability to the Group. The Group's enhanced cashflow profile post the acquisition underpins the Board's proposal to increase the final 2020 dividend per share by 3%. In line with the Group's stable and sustainable dividend policy, the Board has recommended a 2019 final dividend per share of 23.4p.

Following completion of the acquisition of ReAssure Group plc ('ReAssure'), we will be entrusted with the long-term savings of over 14 million customers. It is the Group's duty to be a good custodian of these savings and to help people enjoy a secure and sustainable retirement. We see our role in helping customers to save for the long-term as the very essence of our social purpose as a business.

During 2019 we have been increasingly focused on ensuring Phoenix integrates Environmental, Social, and Governance ('ESG') into our everyday operations. As a business we are uniting behind a new sustainability vision "Committing to a Sustainable Future" and have identified four areas of commitment for our sustainability strategy – deliver for our customers, foster responsible investment, reduce our environmental impact and be a good corporate citizen. These four commitments will be underpinned by our active approach to supply chain management and our strong governance framework.

It is our colleagues who will deliver these commitments and Phoenix's shared values of Passion, Responsibility, Growth, Courage and Difference act as the guiding principles in everything we do. Our focus on creating a rich and diverse working environment is reflected in our continued status as one of the UK's Top Employers.

To foster a deeper connection between the Board and colleagues across the Group, Karen Green has been appointed as Work Place Director for the business as part of Phoenix's 'Employee Voice' programme. Our Non-Executive Directors and I feel strongly about Phoenix's purpose, values and strategy and are acutely aware of the increased engagement and insights that this programme brings.

However, the interaction of the Board with colleagues is not limited to this relationship, and in October the entire Board took part in engagement sessions with Phoenix colleagues across the business.

In 2020, Phoenix bids farewell to two great industry leaders, Clive Bannister, Group Chief Executive Officer, and Jim McConville, Group Finance Director, and Group Director, Scotland.

In November 2019, Clive announced that he will retire on 10 March 2020 after nine years with the business. Clive has led Phoenix in a period of sustained growth to its current position as the largest life and pensions consolidator in Europe.

Clive will be succeeded by Andy Briggs who joined the business as CEO-designate on 1 January 2020 and was appointed to the Board on 10 February 2020 following regulatory approval. Andy has over 30 years of insurance industry leadership experience.

Phoenix, its customers, colleagues and investors will benefit from a smooth succession and, with Andy as the Group's CEO, we will be in the best position to leverage the broad, strategic platform that Clive has created.

Jim will be standing down on 16 May 2020 after eight years with the business.

His experience and authority have been a cornerstone of Phoenix's success and the Group is fortunate to have had the benefit of his financial and strategic expertise.

Succession planning is a key focus for the Board and to that end we are delighted to appoint Rakesh Thakrar, the Group's Deputy Finance Director since 2014, as Jim's successor. The Board believes that Rakesh is a remarkable talent, with a deep and broad understanding of Phoenix and its potential.

On behalf of the Board I would like to thank both Clive and Jim for their outstanding contributions to the Group.

Furthermore, in September 2019, we were pleased to welcome Mike Tumilty as one of the Standard Life Aberdeen nominees to our Board as a replacement for Barry O'Dwyer. I also look forward to welcoming to our Board a nominee from each of our new strategic partners, Swiss Re and MS&AD, on completion of the ReAssure acquisition.

Looking ahead

At a Group level, we start 2020 as we ended 2019, focused on the acquisition of ReAssure which, subject to regulatory approvals, we hope to complete in the middle of the year.

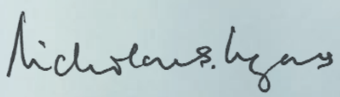
Our strategic priorities are the safe transition of both the Standard Life Assurance and ReAssure businesses. Phase 3 of the Standard Life Assurance transition is the most complex. Our enlarged partnership with the leading technology provider Tata Consulting Services ('TCS'), announced in 2019, will support our long-term growth plans for our Open business and enhance our customers' and advisers' digital experience across both our Open and Heritage businesses.

We see significant potential for further value creation in the Bulk Purchase Annuities ('BPA') market. I remain convinced that the drivers for consolidation are inevitably increasing and will tip the balance toward more institutions seeking to divest their capital-heavy legacy businesses to leaders in the Heritage space such as Phoenix. The Group has the track record and platform to remain at the forefront of life consolidation in the future.

Phoenix is committed to its values and driven by its long-term vision of becoming Europe's Leading Life Consolidator. We are building an enduring organisation, underpinned by mutually beneficial relationships with key stakeholders, and we will continue to take a long-term view to building a sustainable future.

Thank you

All the successes of the past year are testament to a great team effort and I would like to thank the Board, my colleagues, our partners and stakeholders for their continued support.



Nicholas Lyons
Chairman

CASH RESILIENCE GROWTH

Clive Bannister
Group Chief Executive Officer

2019 was a successful year for Phoenix. We delivered Cash, Resilience and Growth whilst meeting all of our strategic priorities.

Phoenix achieved its financial targets, exceeded the 2019 cash generation target range and maintained a resilient capital position throughout a year of macro-economic volatility.

We continued to make strong progress across all phases of the Standard Life Assurance transition programme and announced an enlarged partnership with leading technology and service provider TCS. This strategic partnership will enable us to deliver a hybrid end state Customer Services and IT operating model built on strong innovation and designed to deliver excellence in customer service.

Growth through BPA and new Open business in the UK and Europe was strong in 2019, collectively delivering circa £0.5 billion of incremental long-term cash generation and bringing increased sustainability to our dividend.

On 6 December 2019 we announced the acquisition of ReAssure Group plc ('ReAssure'), a strategically compelling transaction which meets all of our acquisition criteria and confirms Phoenix as Europe's largest life and pensions consolidator. The acquisition was approved by shareholders on 13 February 2020 with 99.99% of votes cast in favour.

We also made significant progress across our ESG agenda with the appointment of the Group's first Head of Sustainability. I encourage you to read Phoenix's inaugural Sustainability Report which sets out our new sustainability vision "Committing to a Sustainable Future". This report outlines our progress to date and future aspirations across the sustainability issues that are most material to Phoenix and its stakeholders.

The successes of the year were made possible by the engagement and commitment of my colleagues, the strong governance framework embedded within the Group and leadership by the Group Board.

FINANCIAL TARGETS

For the tenth consecutive year Phoenix delivered on all its publicly stated financial targets. With £707 million of cash generation in 2019, net of a £250 million capital injection into our Irish subsidiary to conclude our preparations for Brexit, we exceeded the upper end of our full year cash generation target range.

Today, we have announced a new one-year cash generation target range for 2020 of £800 to 900 million and we remain on track to deliver our five-year target for 2019 to 2023 which has been "upgraded" for the impact of 2019 new business to £3.9 billion.

We also delivered resilience to our Solvency II balance sheet with a surplus of £3.1 billion and a Shareholder Capital Coverage Ratio of 161%.

The Group's financial strength was recognised by Fitch's affirmation of Phoenix's Insurer Financial Strength Rating of A+ as part of their annual review in June 2019 .

STANDARD LIFE ASSURANCE TRANSITION PROGRAMME

The Group continued to make strong progress across the Standard Life Assurance transition programme which remains on track to meet its £1.2 billion total synergy target.

To date we have achieved £645 million of capital synergies, 90% of our £720 million target. We have also delivered £33 million of cost savings against a target of £75 million per annum and realised £28 million of one-off cost synergies against a target of £30 million.

The transition programme comprises three phases:

- Phase 1 is substantially complete and delivered the end state operating model for the Head Office functions.
- Phase 2 is on track to deliver an integrated multi-site Finance and Actuarial function by end 2020 and obtain regulatory approval for our harmonised internal model.
- Phase 3 will deliver a hybrid Customer Services and IT operating model that brings enhanced capabilities along with operational flexibility and is due to complete by the end of 2022. In November 2019, we announced an enlarged strategic partnership with our technology and service provider TCS to support the delivery of this model. The partnership will bring together the strengths of Standard Life Assurance, Phoenix and TCS and will build on the strong innovation and customer service excellence to which the partners are committed.

NEW BUSINESS

In 2019, new business written across our three business segments – UK Heritage, UK Open and Europe – generated £475 million of incremental cash generation.

This has offset the run-off of our in-force book, bringing sustainability to our long-term cash generation. We therefore estimate that the long-term cash generation from the business in-force as at 31 December 2019 will be £12 billion.

COMMITTING TO A **SUSTAINABLE FUTURE**

Phoenix is uniting behind its new sustainability vision of "Committing to a Sustainable Future" and has identified four areas of commitment for its sustainability strategy which are critical to delivering Phoenix's purpose of inspiring confidence in the future.

www.thephoenixgroup.com/sustainability2019

COMMITTING TO A SUSTAINABLE FUTURE

01. DELIVER FOR OUR CUSTOMERS
We aim to provide the right products, solutions and services to our customers to help them enjoy a secure financial future.

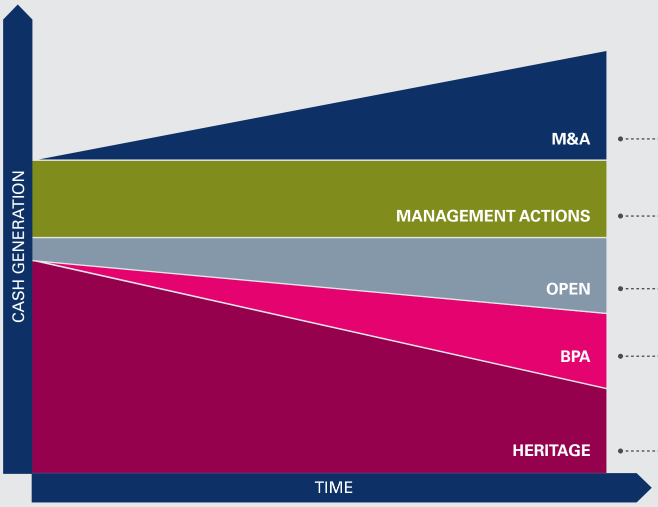
02. FOSTER RESPONSIBLE INVESTMENT
We aim to make responsible investment decisions and consider the sustainability of our investments in safeguarding the interests of our customers, shareholders and other stakeholders.

03. REDUCE OUR ENVIRONMENTAL IMPACT
We aim to minimise our impact on the environment and promote good environmental practices.

04. BE A GOOD CORPORATE CITIZEN
We aim to be a diverse, engaged and enabled workforce and good corporate citizen in the communities in which we are based.

WORK ETHICALLY WITH OUR SUPPLY CHAIN

GOVERNANCE AND GOOD BUSINESS PRACTICE



We have used an illustration called "The Wedge" (above) to show that growth through new business has the potential to bring sustainability to long-term cash generation and are encouraged that the experience of 2019 brings credibility to this hypothesis.

UK Heritage
The majority of our Heritage business is in run-off; however, our annuity book is growing through both vesting annuities and BPA. We take a selective and proportionate approach to BPA and invested £98 million of capital in the year to secure over £1.1 billion of BPA liabilities. This new business will generate £235 million of incremental long-term cash generation and has an average payback period of 6–7 years.

UK Open
The Open products we write are "capital-light" and therefore incur a de minimis capital strain. Growth across our Open business has been encouraging, delivering gross new business inflows of £6.0 billion, a new business contribution of £153 million and long-term cash generation of £214 million.

UK Workplace is our most valuable Open business product line, contributing nearly 65% of long-term cash generation. It is the primary channel of customer acquisition; it is our "engine for growth".

Europe
The Irish and German markets continue to be difficult; naturally disturbed by recent Brexit uncertainty. Despite this backdrop, new business in Europe delivered £26 million of incremental long-term cash generation in 2019.

IMPROVING CUSTOMER OUTCOMES

Improving outcomes for our 10 million customers continues to be central to our mission. Therefore, I am delighted to report that we exceeded all of our target metrics for customer service during 2019.

In addition, we distributed circa £250 million of with-profits estate to our customers in 2019, totalling circa £845 million over the past five years.

We grow our customer base through strong distribution and proposition offerings in our chosen markets, with the Workplace channel bringing circa 280,000 new scheme members each year.

We engage our customers through continuous review and enhancement of our customer proposition so that we are relevant, easy to deal with and are seen as a trusted guide.

Our customer initiatives this year centred around listening more and better understanding our customers, improving communications and enhancing our digital proposition.

We have focused on improving customer communication so that customers have a clear understanding of what they can do with the policy or plan they hold with us and make an informed decision should they want to take any action.

We are also ensuring that we connect effectively with our customers. In partnership with Cowry Consulting, a Behavioural Economics consultancy, we have taken actions which are helping to transform customer and employee experiences. This has included redesigning experiences and processes, making the complex simple and removing barriers to create improved outcomes for customers.

In 2019 the Digital proposition has continued to evolve to support our customers in managing their pensions when and how they want. We have grown the rate of engagement amongst our customers and surpassed our target, seeing over 12 million logins in 2019 across Phoenix Life and Standard Life Assurance sites. We have also seen a huge increase in the usage of our Standard Life mobile app which saw over 5.5 million sessions in 2019.

Online top-ups and consolidation of customer pensions also increased to over £560 million in 2019 using our online guidance journey which helps customers consider the key factors when transferring pensions.

GROWTH THROUGH M&A

On 6 December 2019, Phoenix announced the acquisition of ReAssure. This transaction represents another significant milestone, bringing considerable additional scale and skills to Phoenix's Heritage business.

The deal adheres to Phoenix's strict acquisition criteria of being value accretive, supportive of the dividend and maintaining the Group's Fitch investment grade rating.

Phoenix's cash generation profile will be significantly strengthened with an incremental £7.0 billion of cashflows which will bring the enlarged Group's long-term cash generation to £19.0 billion.

In addition, we expect to deliver cost and capital synergies of £800 million by leveraging Phoenix's industry-leading operating model and efficiency-focused approach to capital management.

The consideration payable of £3.2 billion represented 91% of ReAssure's pro-forma Solvency II Own Funds of £3.5 billion as at 30 September 2019, a ratio that is broadly in line with previous acquisitions. The financing structure for the transaction is efficient and utilises existing debt capacity, ensuring that Phoenix remains within its target leverage range of 25 to 30%.

We have already raised part of the debt financing through the issue of a $750 million Subordinated Restricted Tier 1 bond in January 2020.

The Group's financial discipline and the compelling strategic rationale for the transaction were recognised by Fitch Ratings who revised the Group's rating outlook from "Stable" to "Positive" upon announcement.

OUTLOOK

In 2020, following completion of the acquisition of ReAssure, Phoenix will be the UK's largest life and pensions provider with over 14 million customers and circa £330 billion of assets under administration. Whilst our size will have changed, our strategy remains consistent.

We will continue to deliver dependable cash generation from a strong and resilient in-force business whilst pursuing growth opportunities that will build an enduring organisation. Integral to this will be a focus on our key sustainability themes of delivering for our customers, fostering responsible investment, reducing our environmental impact and being a good corporate citizen.

At an operational level, we will continue to progress the Standard Life Assurance transition programme alongside completion of the ReAssure transaction targeted for mid-2020. We are cognisant of the high degree of integration work underway at both Phoenix and ReAssure. We expect the phased integration of ReAssure to take three years and will take a coordinated approach to ensure enterprise stability. Both Phoenix and ReAssure are highly experienced in delivering complex integrations and we are confident in our collective abilities to deliver both programmes safely. We look forward to welcoming our future ReAssure colleagues into the Phoenix family.

We are excited at the range of growth opportunities available to us including BPA, new Open Business in the UK and Europe and further M&A in the UK, Germany and Ireland.

We will continue to participate on a selective and proportionate basis in what we expect to be a buoyant BPA market and explore the opportunity to put additional surplus capital to work in this market.

The key focus for our Open business will be staying attuned to our customers' expectations and building relevance as we aim to be our customers' first choice for their life savings. We will achieve this by investing in our proposition, continuing to listen to our customers, being a trusted guide and investing in the transformation of our platforms.

We are confident that with additional opportunities in excess of £600 billion there remains a wealth of additional acquisition opportunities in the UK, Germany and Ireland. Macro-economic factors such as a 'lower for longer' interest rate environment combined with capital inefficiencies and increasing costs of regulatory change will result in institutions looking to off-load their legacy businesses. Phoenix is a safe harbour for this business and a trusted vendor with a proven track record.

Phoenix's values underpin everything that we do and my colleagues have their sights set on the future, fulfilling our mission and working hard toward our vision of becoming Europe's Leading Life Consolidator.

Lastly, both Jim and I will take leave of Phoenix in 2020. I wish to take this opportunity to pay tribute to Jim for his extensive contribution during his eight years with the Group.

During his tenure he significantly strengthened Phoenix's balance sheet, obtained an Investment Grade Rating for the Group, established an unbroken record of delivering on financial targets, and helped deliver transformative acquisitions.

It is testament to Phoenix's bench strength that we are fortunate enough to have the opportunity to appoint Rakesh Thakrar, current Group Deputy Finance Director, as Jim's successor (subject to regulatory approval).

Rakesh has been Jim's deputy since 2014 and, alongside proven skills in managing the Group's finances, has a longstanding knowledge of the Group and the long-term savings industry as a whole.

In November 2019, I informed the Board of my intention to retire. It has been a privilege and pleasure to serve as Phoenix's Group Chief Executive Officer on what has been an extraordinary nine-year journey. I would like to express my deep gratitude to all of my colleagues for their hard work and determination to drive forward Phoenix's strategy during this time and extend a warm welcome to Andy Briggs as my successor.

Clive Bannister
Group Chief Executive Officer

DEPENDABLE LONG-TERM **CASH** GENERATION

Phoenix has a long track record of delivering cash generation, meeting or exceeding all cash generation targets since 2010. Predictable long-term cash generation supports Phoenix's stable and sustainable dividend policy.

£707m

2019 CASH GENERATION

£3.9bn

5 YEAR CASH GENERATION TARGET (2019 TO 2023)

£12bn

EXPECTED LONG-TERM CASH GENERATION FROM IN-FORCE BUSINESS (2020 ONWARDS)

AT PHOENIX CASH IS KING

Cash generated by our Life companies and remitted to Group is Phoenix's key performance metric.

The majority of our cash generation comes from the emergence of surplus as our in-force business runs off over time and capital unwinds. We call this 'organic' cash generation. However, at Phoenix we deliver management actions which increase free surplus and therefore enhance this organic cash generation.

We have a strong track record of delivering management actions, which have contributed £2.5 billion of cash generation in the last decade.

The dependable nature of cash generation from our in-force business allows us to set both short term (1 year) and medium term (5 year) cash generation targets. We also provide guidance on the cash that will come from the business over its life-time.

Read more on page 39

BRINGING **RESILIENCE** TO MARKET RISK

Phoenix operates a risk management framework aimed at bringing resilience to our Solvency II surplus and certainty to cash generation.

DYNAMIC RISK MANAGEMENT

Cash is remitted from Solvency II free surplus. By bringing resilience to our solvency balance sheet, we increase the certainty of meeting our cash generation targets.

Phoenix operates a dynamic risk management framework which seeks to manage our exposure to each of the risks that the Group faces within its risk appetite. This is achieved through a combination of asset liability management and risk reduction actions like hedging and reinsurance.

This approach to risk management results in Phoenix being less sensitive to risk events than the majority of its peers.

We articulate our risk appetite through a target Shareholder Capital Coverage Ratio range of 140% to 180%. The ratio of 161% at 31 December 2019 is in the middle of this range.

Read more on page 42

£3.1bn

GROUP SOLVENCY II SURPLUS

161%

GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

GROWTH BRINGS SUSTAINABILITY

Phoenix has a range of growth options across both Heritage and Open businesses that bring sustainability to long-term cash generation.

GROWING THROUGH NEW BUSINESS AND M&A

Growth from new business brings incremental cash generation to Phoenix which offsets the run-off of our in-force business and brings long-term sustainability to cash generation.

BPA brings growth to our Heritage business. Funded from surplus capital, we take a selective and proportionate approach to BPA and are an established participant in this market place. With an average pay-back of 6–7 years, BPA offers attractive returns.

In our capital-light Open business, workplace is the engine for growth and our primary method of customer acquisition. Growth comes organically by retaining existing schemes and is accelerated by new members joining schemes as well as by increases in contributions, both of which are incremental to long-term cash generation.

We also deliver growth through acquisitions. The £7 billion of cash generation from the proposed acquisition of ReAssure Group will support a 3% increase in our dividend and fund future growth of our BPA and Open businesses.

Read more on page 41

£475m

INCREMENTAL LONG-TERM CASH GENERATION

£7bn

LONG-TERM CASH GENERATION FROM REASSURE ACQUISITION

SHIFTING LANDSCAPES

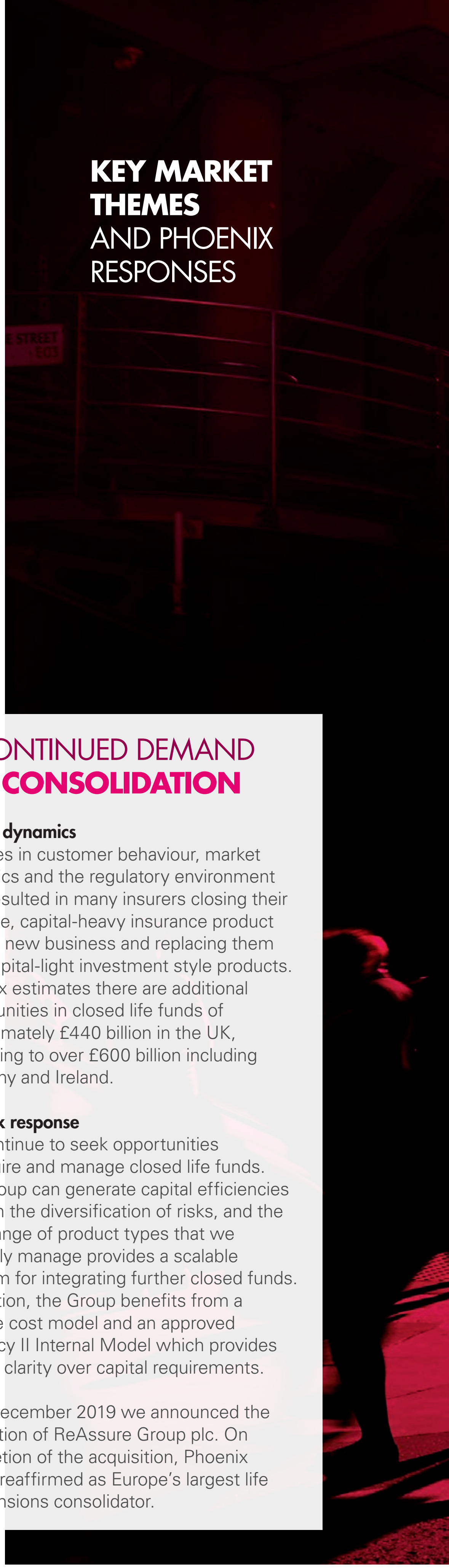
Phoenix Group has continued to grow in 2019 and has reaffirmed its position as Europe's largest life and pensions consolidator. In 2019 Phoenix completed four bulk purchase annuity transactions, strengthening its foothold in the market. The Open business, delivered under the Standard Life and SunLife brands, continues to grow, providing a diverse range of products for our customers and increasing cash generation for our shareholders.

In 2019 the dynamics of the life and pensions market continued to evolve, creating new challenges and opportunities for the Group.

"

Changes to the industry in which we operate create opportunities which we at Phoenix are well placed to take advantage of "

Clive Bannister
Group Chief Executive Officer



KEY MARKET THEMES AND PHOENIX RESPONSES

A CONTINUED DEMAND FOR **CONSOLIDATION**

Market dynamics
Changes in customer behaviour, market dynamics and the regulatory environment have resulted in many insurers closing their old style, capital-heavy insurance product lines to new business and replacing them with capital-light investment style products. Phoenix estimates there are additional opportunities in closed life funds of approximately £440 billion in the UK, increasing to over £600 billion including Germany and Ireland.

Phoenix response
We continue to seek opportunities to acquire and manage closed life funds. The Group can generate capital efficiencies through the diversification of risks, and the wide range of product types that we currently manage provides a scalable platform for integrating further closed funds. In addition, the Group benefits from a variable cost model and an approved Solvency II Internal Model which provides greater clarity over capital requirements.

On 6 December 2019 we announced the acquisition of ReAssure Group plc. On completion of the acquisition, Phoenix will be reaffirmed as Europe's largest life and pensions consolidator.

THE UK **SAVINGS GAP**

Market dynamics
According to research from the World Economic Forum, retired people in the UK will on average outlive their savings by more than 10 years. The strain on the State Pension created by the UK's ageing population has resulted in an ever-increasing need for individuals to save more throughout their working lives to fund their lifestyle and well-being in retirement.

Phoenix response
Our goal at Phoenix is to support our customers at every stage of their savings lifecycle by providing a diverse range of products to meet their needs.

We remain committed to developing the Standard Life Assurance proposition, through which we offer pension savings solutions in the workplace and individual pensions markets, as well the SIPP offering provided to customers through Standard Life Aberdeen's Wrap Platform.

The Standard Life brand currently holds a 23% market share for workplace pensions (Source: Broadridge Defined Contribution and Retirement Income Report 2018 – Q4 2017 figures), and is a leading brand in this market. We continue to invest in our workplace proposition, enhancing our product range and expanding our digital service offering to meet the changing needs of our customers.

10 YEARS

RETIRED PEOPLE IN THE UK WILL ON AVERAGE OUTLIVE THEIR SAVINGS BY MORE THAN 10 YEARS

Throughout their working life the average person in the UK may work for 11 different firms, potentially accumulating 11 different workplace pension pots along the way (Source: Pensions Policy Institute). Members who leave a Standard Life workplace pension are given the option to contribute to one of our individual pension products, allowing their investments to be kept in one place. Customers can also consolidate other pension pots into their Standard Life pension, making it easier to keep track of their savings.

Our Active Money Personal Pension has been designed to help people save for their future – and give them the flexibility to control their own investments and change their plan as their own needs change. Individuals can easily upgrade to our Active Money SIPP if and when it is required, which provides access to a greater range of investment options as well as offering access to a suite of flexible drawdown options in retirement.

In addition to the Standard Life Assurance proposition we have our SunLife brand, which provides customers with a range of specialist Over 50s products, including life cover, equity release and funeral plans. These products provide our customers with choices for funding healthcare needs in retirement and protecting loved ones financially after death. The SunLife brand is a leader in the over 50s market with a 61% market share of all whole of life guaranteed acceptance plans bought directly (Source: ABI statistics issued in October 2019 for 12-month period to 30 June 2019 based on new Phoenix Life policy sales trading as SunLife).

> It has never been more important for individuals to take control of their pension savings and we are here to help people on their journey to a secure and sustainable retirement."

Clive Bannister
Group Chief Executive Officer

AGEING DEMOGRAPHICS

Market dynamics

Ageing demographics in the UK have created retirement savings challenges for individuals and companies alike. Individuals will continue to require products that allow them to manage their finances for longer in retirement. For many companies the rising cost of providing Defined Benefit pension scheme benefits to employees is an increasing burden. The Bulk Purchase Annuity ('BPA') market offers employers the ability to mitigate the risk of their Defined Benefit pension liabilities whilst allowing the pension scheme trustees the ability to secure and protect their members' benefits. The size of the BPA market is significant, and 2019 saw continued growth in volumes and transaction sizes. The total value of transactions completed in 2019 was in excess of £40 billion, almost doubling the 2018 record (Source: Hymans Risk Transfer Report 2020).

Phoenix response

We continue to offer products such as pensions drawdown and annuities to our policyholders, offering individuals a range of flexible options for their retirement. We also continue to provide a safe and secure home for our individual annuitants, and look for opportunities to grow our annuity book through back-book transactions. Having successfully completed seven external BPA transactions since entering the market in 2018, we have secured our place in this market and we will continue to grow our presence.

REGULATORY CHANGE

Market dynamics
Regulatory change has the potential to generate both challenges and opportunities for insurers in the Life and Pensions market. Regulatory change has historically been a driver for Life and Pensions consolidation, and we expect that pattern to continue in the future.

Phoenix response
Changes to the regulatory capital regime bring opportunities to maximise capital efficiency across our business. So whilst some companies may see regulatory change as a threat to their business model, we view change as a driver to deliver additional value from our in-force business. Regulatory change also has the ability to generate new back-book consolidation opportunities as companies' strategic objectives evolve.

DIGITALISATION

Market dynamics
Across the Life and Pensions industry there is an increasing demand from customers for digital solutions for financial management. The right digital solutions can improve customer journeys and encourage individuals to actively engage in the management of their personal finances.

Phoenix response
We continue to invest in the digital journey of our Heritage and Open customers through the online dashboard and mobile app. Not only does digitalisation help reduce administration costs, it supports customer engagement and keeps Phoenix relevant in our customers' lives day to day. We now record over 1 million mobile app and secure site sessions per month, with monthly online logins now typically outnumbering phone calls 8 to 1. We will continue to grow our digital offering, encouraging as many of our customers as possible to start to 'think Digital First'. Our digital journey is supported by our enlarged partnership with TCS, and the development of our technology and operating services Hub in Edinburgh will build on strong innovation and deliver excellence in customer service.

ENVIRONMENTAL SUSTAINABILITY

Market dynamics
In 2019 the global focus on climate change has increased substantially, and the future impacts on our business and customers are being made clear. Insurers and other financial market participants have a responsibility to help address climate change and many are taking steps to reduce the overall carbon footprint of their organisations. Insurers must also understand the financial impacts of climate change risks on their business models, not only physical risks associated with climate change but also transition risks from moving to a low carbon economy.

Phoenix response
At Phoenix we are committed to minimising our impact on the environment.

We have created a responsible investment philosophy and we will foster the alignment of our investment portfolio with our customers' evolving beliefs on environmental and social considerations.

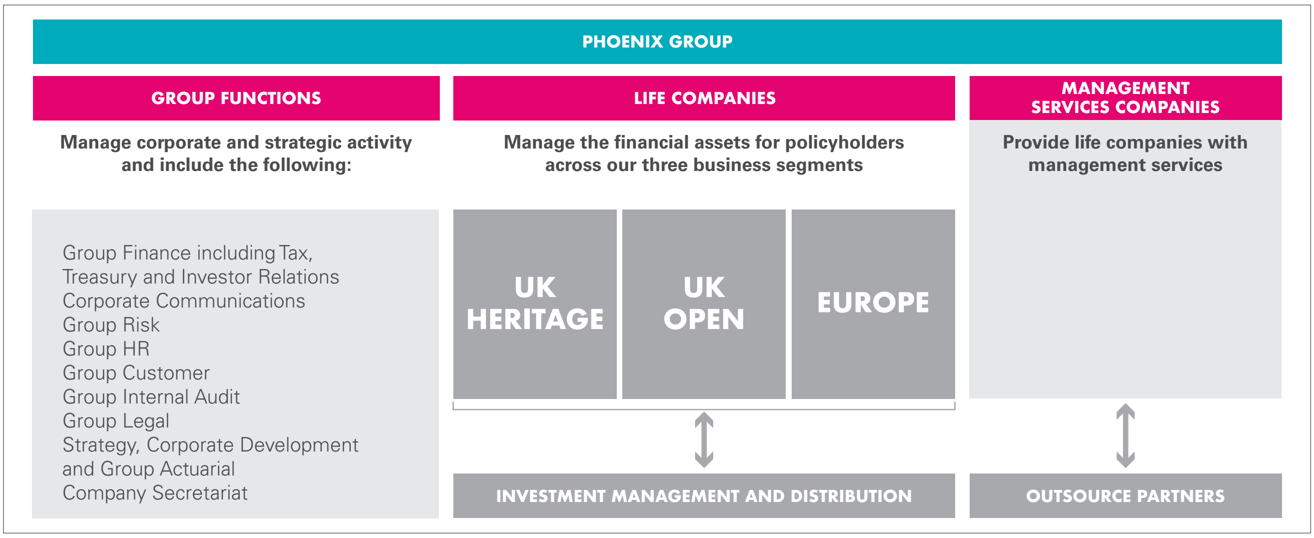
We recognise that our customers' needs are changing in a world facing ESG challenges, and we are developing our proposition to remain relevant to customers by understanding their needs.

Within our organisation we have delivered a number of initiatives to reduce, re-use and recycle, and we are creating a Group-wide environmental policy to deliver cohesive action across our Group.

As a business we are uniting behind our sustainability vision 'Committing to a sustainable future', which is underpinned by four key commitments including fostering responsible investment and reducing our environmental impact. You can read about this further in the Group's Sustainability Report.

OUR OPERATING STRUCTURE

The Group's operating structure has evolved to work across our business segments and the combined Group.



GROUP FUNCTIONS

The Group operates centralised functions that provide Group-wide and corporate-level services and manage corporate and strategic activity.

LIFE COMPANIES

We have three major life companies located in the UK and one in Ireland that are responsible for the management of the Group's life funds in the UK and Europe (Germany and Ireland) across both Heritage and Open product lines.

Read more about the business segments on pages 24 to 25.

The life companies are regulated entities that hold the Group's policyholder assets. The Group simplifies its business model by bringing together separate life companies and funds, making more efficient use of the capital and liquidity in its life companies. This results in administrative expense savings and increased consistency of management practices and principles across the Group.

Investment management

Investment management services are provided to the life companies by a number of external asset management companies, with the main partner being Aberdeen Standard Investments.

Distribution

Distribution of non-workplace Standard Life branded products is provided by Standard Life Aberdeen under the Client Service and Proposition Agreement. Distribution of the workplace product is managed in-house under the Standard Life brand. We have also retained the SunLife distribution business within the Open business segment of the Group with a management team based in Bristol focused on their key skills of marketing and sales.

MANAGEMENT SERVICES COMPANIES

The Group's management services companies are charged with the efficient provision of financial and risk management services, sourcing strategies and delivering all administrative services required by the Group's life companies. This benefits the life companies by providing price certainty and transferring some operational risks.

Outsource partners

The management services companies manage relationships with the outsource partners for our Life business. Without further acquisitions, the number of policies in our Heritage business declines over time and the cost of our Heritage 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.

Outsource partners have scale and common processes to benefit the Group, including reducing investment requirements, improving technology and reducing our operational risk. Finance, actuarial, information technology, risk and compliance and oversight of the outsource partners are retained in-house, ensuring that we retain full control over the core capabilities necessary to manage and integrate closed life funds.

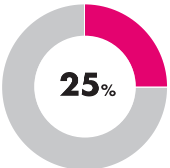
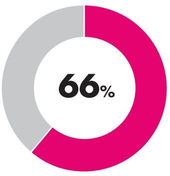
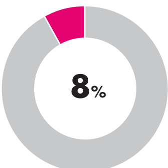
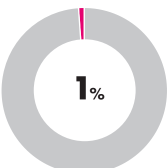
In 2019, we announced an enlarged strategic partnership with TCS, which will extend the use of certain outsourced services to Standard Life Assurance and our Open business segment.

Our Key Products

A WIDE RANGE OF **PRODUCTS**

We have a wide range of products which are written across different funds.

The features of each policy influence whether it is the policyholders and/or the shareholders who are exposed to the risks and rewards of a policy.

Type of business		Typical characteristics	Policyholder benefits	Shareholder benefits
WITH-PROFIT **£61bn** Assets under administration at 31 Dec 2019[1]		These are typically savings and investment products. They comprise endowments, whole of life and pensions products and (some) guaranteed annuity options which guarantee the annuity that a pension pot will be able to buy. The policyholders and shareholders share in the risks and rewards of the policy, depending on the structure of the fund. Excess assets created over time ('estate') provide a buffer to absorb cost of guarantees and capital requirements. In the 'supported' with-profit funds, the shareholders provide capital support to the fund.	Policyholders benefit from discretionary annual and/or final bonuses. The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the fund, together with other elements of experience in the fund.	In the 'supported' with-profit funds, the shareholders' capital is exposed to all economic and non-economic movements until the estate is rebuilt to cover the required capital, at which point the fund becomes 'unsupported'. In the 'unsupported' with-profit funds, typically shareholders receive 10% of declared bonuses (90:10 structure) or nil (100:0 structure), including any estate distributed.
UNIT LINKED **£162bn** Assets under administration at 31 Dec 2019[1]		These are insurance or investment contracts (savings and pensions) without guarantees. The policyholders bear all of the investment risk. Policyholders buy units with their premiums which are invested in funds. Units are sold when a claim is made.	Policyholders' benefits are in the form of unit price growth (based on the investment income and gains, but subject to management charges and investment transaction costs).	Shareholders benefit from fees earned through management charges, bid/offer spreads and/or policy fees.
NON-PROFIT (ANNUITIES) **£21bn** Assets under administration at 31 Dec 2019[1]		Policyholders make fixed or variable payments in lieu of a future lump sum or a future income stream until death.	Policyholders receive regular payments which start immediately (immediate annuity) or at some time in the future (deferred annuity).	Shareholders earn a spread on the assets supporting the annuity payments. The shareholders are directly exposed to all market and demographic risks.
NON-PROFIT (PROTECTION) **£3bn** Assets under administration at 31 Dec 2019[1]		Term assurance policies which pay a lump sum on death if death occurs within a specified period. Whole of life policies which cover the entire life and pay a lump sum on death, whenever it occurs.	Policyholders have certainty of the benefits they will receive.	Profits are generated from investment returns and underwriting margins. Shareholders are exposed to the majority of the risks and benefit from 100% of the profits or losses arising.

1 Total assets under administration for the Group is £248 billion. The product type analysis above excludes £1 billion held in shareholder funds.

THREE **BUSINESS SEGMENTS**

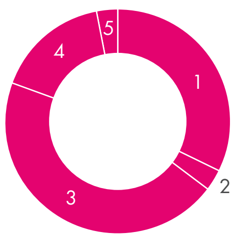
	UK HERITAGE	UK OPEN	EUROPE
IN FORCE	With-profits Unit linked Annuities Protection	**Unit linked:** Workplace Retail pension Wrap	**Germany and Ireland:** Unit linked With-profits Annuities
NEW BUSINESS	VESTING ANNUITIES BULK PURCHASE ANNUITIES	UNIT LINKED	UNIT LINKED

UK HERITAGE

Our UK Heritage business comprises products that are no longer actively marketed to customers. Phoenix is a leader in the safe and efficient management of UK Heritage business and has a strong track record of delivery.

Assets Under Administration*

£126bn



1. With-profit (unsupported)	32%
2. With-profit (supported)	3%
3. Unit linked	45%
4. Non-profit (annuities)	16%
5. Non-profit (protection, shareholder funds and other non-profit)	4%

* Based on assets under administration at 31 December 2019

IN FORCE

The UK Heritage business has been built from two decades of consolidation and comprises over 100 legacy brands including Britannic, Pearl,Scottish Mutual, AXA and Abbey Life. It also includes the heritage customers of Standard Life Assurance Limited. It has a broad range of life and pensions products which provide Phoenix with natural diversification.

The Group's strategy for our UK Heritage Business is simple – to deliver value to shareholders and customers and to improve customer outcomes.

Organic cash emerges naturally from our UK Heritage business as it runs off over time and we enhance this organic cash generation through the delivery of management actions which either increase the overall cash flows from the business or accelerate the timing of these cash flows.

Heritage business cash generation runs off at 5–7% per annum depending on the particular features of each legacy book.

Integral to our efficient management of the UK Heritage business is ensuring that our cost base reduces more quickly than our policy count runs off.

NEW BUSINESS

The Group generates new business in the Heritage business segment through vesting annuities and bulk purchase annuities, or from incremental contributions from existing pensions.

Vesting annuities

We offer annuities to existing policyholders when their pension policies vest across both the Phoenix Life and Standard Life product ranges. The majority of our vesting annuities are from pension policies which include guaranteed annuity options on maturity.

Bulk purchase annuities

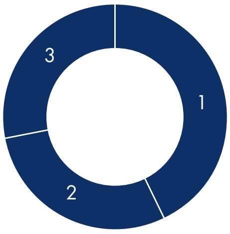
Phoenix is now an established player in the buy-in market with over £4 billion of new annuity business delivered in the past few years across a combination of internal and external buy-ins. The bulk purchase annuity market is a source of value accretive annuity liabilities and we will continue to participate in this market in a proportionate and selective manner.

UK OPEN

Our UK Open business comprises products that are actively marketed to customers. Phoenix is committed to growing its capital-light UK Open business.

Assets Under Administration*

£97bn



1. Workplace	43%
2. Retail pensions	29%
3. Wrap	28%

* Based on assets under administration at 31 December 2019

IN FORCE

Our Open business mainly relates to our pension and long-term savings products being sold under the Standard Life brand, but also includes insurance products aimed at the over 50s market distributed by SunLife. Assets under administration in our Open business are held in three product lines: Workplace, Retail pensions and Wrap. These are predominantly unitised products which have no guarantees and where investment risk sits with the customer. Our Open business therefore comprises capital-light products.

We aim to be our customers' first choice for their life savings and to help them achieve a good outcome.

NEW BUSINESS

Workplace is the primary method of customer acquisition for the UK Open business and acts as the engine for growth.

Growth in workplace comes organically by retaining existing schemes and is accelerated by new members joining schemes and by increases to contributions. With auto-enrolment increases in 2019, the potential for workplace growth is very powerful and our scheme retention continues to be high. We also compete to win new schemes which bring further opportunities for growth. Our proposition includes a well-established Master Trust offering which is an important growth area of the workplace pension market.

Our retail pensions business comprises a range of products across both the accumulation and decumulation stages of the life savings cycle. Within retail, new business is driven by customers opting for draw down products and consolidating their pension pots in one place.

A number of our insured products sit on the successful Wrap platform owned by Standard Life Aberdeen. Under our strategic partnership, Standard Life Aberdeen manages the adviser relationship and is responsible for sales. Phoenix provides the insurance wrapper for the product and is responsible for administration.

Our strategic partnerships with leading technology and service provider TCS announced in 2019 will also enable us to drive future growth. This will create a single digital operating platform with open architecture for the workplace pensions and savings business, bringing greater agility and speed to market.

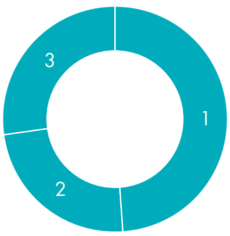
SunLife continues to hold a strong position in the over 50s market, generating new business across its life cover, equity release and funeral plans.

EUROPE

Our European business provides a platform for potential future consolidation. It contains both Open and Heritage products split across Germany and Ireland.

Assets Under Administration*

£25bn



1. Germany	49%
2. Ireland	23%
3. International Bond	28%

* Based on assets under administration at 31 December 2019

IN FORCE

Germany

Germany closed its with-profits business to new business in 2015 and is predominately Heritage. The Heritage segment comprises a variety of pension, endowment and annuity products. Since the closure of with-profits, new business has focused on unit-linked life assurance products with no material guarantees. These are distributed through financial advisers and are administered from operations in Frankfurt and Graz, Austria.

International bond

The international bond is completely open business. It is a unit-linked, tax efficient savings product with open architecture investment choice including Discretionary Fund Managers. The target market is high-net worth UK customers and it is administered from our Dublin office. Distribution is via financial advisers, banks and wealth managers and it is also available on Standard Life Aberdeen's Wrap and Elevate platforms.

In 2019 we launched a new variant of the Offshore Bond, featuring Capital Redemption to enhance the International Bond offering.

Ireland

Ireland is a predominately Open business and distributes capital-light unit-linked products through financial advisers. The open proposition includes investment bonds, pensions and drawdown products targeting both the pre and post retirement markets. The closed Irish business includes legacy pensions, bonds, life assurance, protection and annuity products no longer open to new business.

NEW BUSINESS

New business is written across all open product lines of our European business.

The international bond is sold by Standard Life Aberdeen through the retail market and its Wrap and Elevate platforms. All other Open products are sold by the European units themselves.

INSPIRING CONFIDENCE THROUGH CREATING AND DELIVERING VALUE

Our strategic priorities help enhance the value we create through our business model.

IMPROVE CUSTOMER OUTCOMES

Improving customer outcomes is central to our vision of being Europe's Leading Life Consolidator.

Read more on page 30

DRIVE VALUE

In order to drive value, the Group looks to identify and undertake management actions, which increase and accelerate cash flow.

Read more on page 32

MANAGE CAPITAL

We continue to focus on the effective management of our risks and the efficient allocation of capital against those risks.

Read more on page 34

ENGAGE COLLEAGUES

Our people are at the heart of our business and key to the successful growth of Phoenix Group.

Read more on page 36

We are set apart by our strengths which underpin our business model

SCALE OF OUR PLATFORM

Largest life and pensions consolidator in Europe

SECURITY

Strong balance sheet which generates long-term cash flows and provides security for all stakeholders

SPECIALIST OPERATING MODEL

Specialist operating model enabling us to efficiently manage and integrate Heritage books

Read more on page 22

SERVICE

Quality service to our customers and their intermediaries is critical to our strategy

Read more on page 62

SKILLS

Talented and experienced team. We will continue to invest in this expertise

Read more on page 64

SIGNIFICANT GROWTH

A wealth of acquisitions opportunities across the UK and Europe and organic growth through new business is available to us

Read more on page 18

Our cash generation helps us realise opportunities for growth

IN-FORCE BOOK CASH EMERGENCE
Capital requirements of operating life companies decline as policies mature, releasing capital in the form of cash

MANAGEMENT ACTIONS
Management track record of delivering incremental value

NEW BUSINESS
Capital-light new business under the Strategic Partnership with Standard Life Aberdeen, vesting annuities offered to existing policyholders, our in-house distribution of workplace products and SunLife over 50s offering

MERGERS AND ACQUISITIONS
Value accretive acquisitions generate increased cash flows and synergy opportunities through scale advantages

BULK PURCHASE ANNUITY TRANSACTIONS
The bulk purchase annuity market offers a complementary source of assets and growth

+ Read more about our cash generation on page 28

Resulting outcomes delivered are positive for stakeholders

CUSTOMERS
Optimised customer outcomes

+ Read more on page 30

94% Phoenix Life Only
71% Standard Life Only
CUSTOMER SATISFACTION
REM

SHAREHOLDERS
Shareholder value created and stable and sustainable dividends delivered

+ Read more on page 32

£707m
CASH GENERATION
APM

23.4p
2019 FINAL DIVIDEND

COLLEAGUES
Challenged, motivated and rewarded colleagues

+ Read more on page 36

8th
YEAR UK TOP EMPLOYER INCLUSION

COMMUNITY
Support for local communities and charity partners

+ Read more on page 66

+£370k
DONATED TO CHARITIES ACROSS THE GROUP

ENVIRONMENT
Reduced environmental impact

+ Read more on page 68

100%
OF ELECTRICITY AT CORE SITES IS FROM RENEWABLE SOURCES

HOW WE GENERATE **CASH**

OPENING FREE SURPLUS

What is the opening free surplus?

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

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

Less Capital Policy
The life companies hold additional internal capital buffers above the regulatory capital requirement for prudence.

SOURCES OF LIFE COMPANY CASH GENERATION

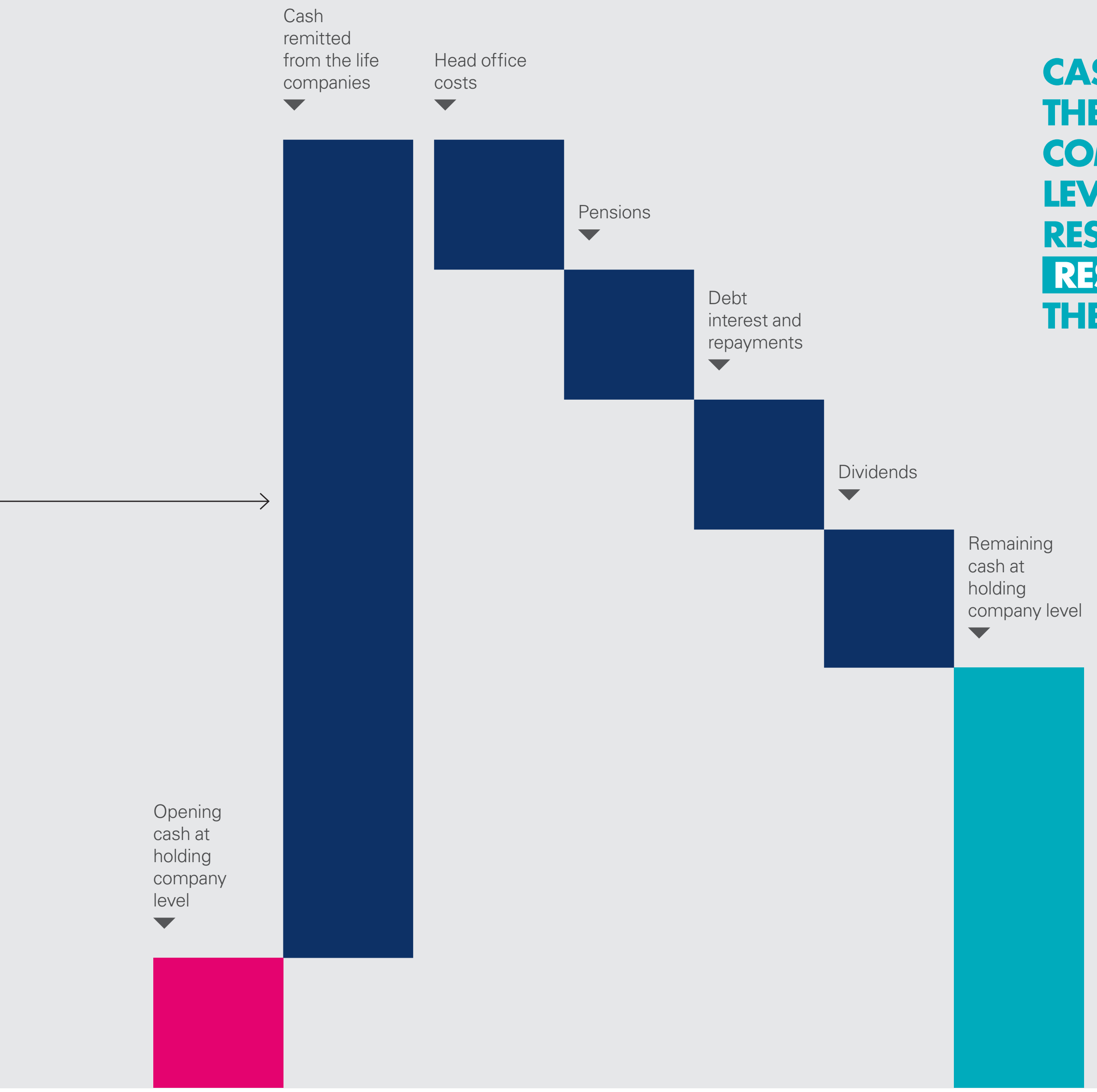
How is free surplus generated?

Margins earned
Life companies earn margins on different types of life and pensions products increasing Own Funds.

Reduced capital requirements
As our in-force business runs off, the Solvency Capital Requirements reduce.

Management actions
These can either increase Own Funds or reduce capital requirements.

Impact of new business
New business written across our Open product range is capital-light.



CASH AT THE HOLDING COMPANY LEVEL PROVIDES RESOURCES AND RESILIENCE FOR THE GROUP

USES OF HOLDING COMPANY CASH GENERATION

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

Head office costs
Including salaries and other administration costs.

Pensions contributions
To Group's employee Defined Benefit schemes.

Debt interest and repayments
On outstanding Group shareholder debt.

Dividends
The Group maintains a stable and sustainable dividend.

USES OF REMAINING CASH – GROWTH OPPORTUNITIES

What is the remaining cash used for?

Mergers and acquisitions
Transactions must be value accretive and cash flow generative, as well as support the dividend level and maintain the Group's target leverage ratio.

Bulk purchase annuity transactions
Generate increased cash flows over the longer term and are value accretive.

ENHANCING THE VALUE WE CREATE

We have four areas of strategic focus. Our initiatives and key performance indicators demonstrate how we have delivered against these strategic areas.

01 IMPROVE CUSTOMER OUTCOMES

We are entrusted with the long-term savings, investment and protection of 10 million policyholders.

We are committed to improving customer outcomes by consistently delivering fair treatment through clear and open communication, and offering options that meet customer needs.

We focus on embedding a strong risk management approach, ensuring that our people are appropriately skilled, motivated and engaged.

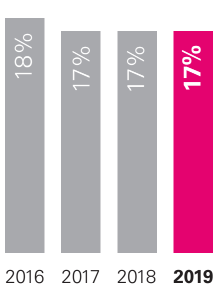
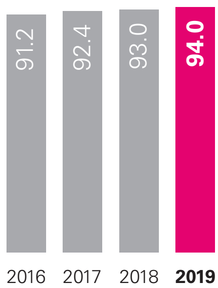
We demonstrate our commitment to our customers and continue to add value by ensuring our customer proposition remains relevant, engaging and easy to deal with.

KEY INITIATIVES AND PROGRESS IN 2019

- In line with the Group's appetite on value for money, we reduced the ongoing charges for c.200,000 of our Phoenix Life pension customers and removed exit charges for c.160,000 pension customers.
- We continued our work towards raising awareness of vulnerability, recognising the potential vulnerabilities our customers can face and creating an environment where people feel safe to disclose issues which affect their wellbeing.
- Online enhancements were made to meet AA website standards allowing improved accessibility and usability for users with cognitive, visual, hearing or dexterity impairments.
- We created new opportunities for customers to interact online. Eligible customers can now use web chat to assist their registration, view their policy details, change their personal details, send and receive secure messages and transact online if they wish to surrender their policy.
- We focused on addressing adviser feedback. The launch of a new variant of the Offshore bond – featuring Capital Redemption has been well received due to the additional features it offers customers.
- Confirmation from the Pensions Regulator was received that both of our Master Trusts had received authorisation. This is significant given the importance of our Master Trust in participating in the growth in the Workplace market.
- A new default offering to the Workplace market was launched. This addressed specific feedback for a more passively managed offering, with a range of solutions reflecting different levels of sophistication and price points.
- We harmonised our annuity solution across the Group, working with our partner HUBFS, and aligned timescales with requirements for the Retirement Outcomes Review.
- A number of improvements have been made to the ex-Abbey Life products, bringing greater flexibility for customers, reducing the turnaround times for a number of processes and reminding customers of valuable benefits. We began offering customers with qualifying small ex-Abbey Life annuities the option to encash their annuities, which will be rolled out to the remainder of the qualifying ex-Abbey Life customers in 2020.

PRIORITIES FOR 2020

- Continue to improve digital engagement through the Mobile App and the Customer Dashboard, giving our customers further choice.
- Harmonise our customer facing standards and frameworks to ensure consistent experiences and good outcomes for all customers. We will support those customers accessing their pension savings through drawdown by offering the option to select from four investment solutions linked to the customer's needs and plans for their retirement.
- Extend our Customer Community to ensure it is representative of our expanded customer base, giving customers the opportunity to have their say about what is important to them to inform the evolution of the customer proposition.
- Continue to explore innovative solutions for our customers by collaborating on the development of enhanced client analytics. This will inform actions by analysing trends, enabling improved member outcomes and supporting more effective governance and oversight.
- Extend our drawdown capability across the Group so more customers can access their pension benefits in a flexible way, such as offering Standard Life's non-advised drawdown to Phoenix Life customers, and allowing Workplace members to access their pension benefits within their scheme.

Measuring our progress – Phoenix Life and Standard Life			Phoenix Life only	Standard Life only
KPI	**Financial Ombudsman Service ('FOS') overturn rate (%)** **17%** [1] **2018: 17%**	**Speed of pension transfer payouts – Origo (days)** **9.69** **2018: 10.73 (Phoenix Life), 11 (Standard Life)**	**Customer satisfaction score (%)** **94%** [2] **2018: 93%**	**Net Easy customer effort score (%)** **71%** **2018: 72%**
				
Why is it important?	This is an independent view of how firms are handling complaints. It provides us with an opportunity to review and adjust our complaint handling proposition in line with best industry practice.	This is a recognised industry measure for the speed of processing Pension Transfers, Open Market Options and Immediate Vesting Personal Pensions. It measures the end-to-end time from the date of receipt of a request to transfer to the date the monies arrive with the new pension provider. It allows us to benchmark performance and our overall servicing and claims proposition against our peers.	This is an externally calculated measure of how satisfied customers are with Phoenix's servicing proposition.	This is an internally calculated measure of how easy our customers find it to interact with our business. It asks one question 'Please tell us how easy it was to get what you needed today between 0 and 10, with 0 being very difficult and 10 being very easy?'.
Analysis	The FOS overturn rate of 17% is significantly below the industry average of 34% and the 'Decumulation, Life and Pensions' category average of 27%.	The Group's pension transfer times are better than the industry target.	The Group achieved a satisfaction score of 94% reflecting our commitment to ensuring customers are satisfied with our products and services.	The Net Easy customer effort score of 71% reflects that overall customers are finding us easy to deal with when they contact us. The method for capturing and assessing customer feedback has evolved through 2019 and the transition to a new approach is now complete.
Target	To maintain a FOS overturn target of less than the industry average of 30%.	12 days in line with the industry stated target for Origo Pension Transfers	To maintain a customer satisfaction score which is consistently above 91%.	To maintain Net Easy target of ≥70%
Linked	REM	REM	REM	REM

1 FOS overturn rate shown as H2 2018 and H1 2019 as FY 2019 information is unavailable at time of production.
2 This measures the satisfaction of a sample of Phoenix Life customers surveyed who contacted the call centre. It is calculated as the % of all questions responded in the survey that customers scored 4 or 5.

In order to drive value, the Group looks to identify organic and inorganic growth opportunities and deliver management actions which increase and accelerate cash flows.

02 DRIVE VALUE

The closed life funds within our Heritage business provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to shareholders and repayment of outstanding debt.

Our Open business provides the opportunity to grow organically through the matching of products to new and existing customers as part of our Strategic Partnership with Standard Life Aberdeen and under the Group's SunLife brand. Such growth brings additional scale to our business and dampens the run-off of our Heritage books.

Additional value can be generated from acquisitions of life and pension books of business and further investment in the bulk purchase annuity market.

Furthermore, there are significant opportunities to increase and accelerate cash flows through the delivery of management actions across four key areas: operational management, risk management, restructuring and effective partnerships.

Read more about cash generation on page 39

Read more about operating profit on page 45

Read more about the link to our executive remuneration on page 99

KEY INITIATIVES AND PROGRESS IN 2019

- The Group delivered £707 million in cash generation in the year, exceeding the upper end of its £600 to £700 million target range. The cash generation is stated net of a £250 million capital injection into the Group's Irish domiciled subsidiary, Standard Life International, as part of Brexit preparations.
- Phase 1 of the Standard Life acquisition transition programme is substantially complete, delivering the end state operating model for the HR, Legal and Risk functions.
- The remaining phases of the transition programme are proceeding to timetable. Phase 2 related to the delivery of integrated Finance and Actuarial functions is on track to deliver by the end of 2020. Phase 3 is scheduled to deliver the end state operating model for Customer Service and IT by the end of 2022. The Group announced an enlarged strategic partnership with the technology and service provider TCS in November to support the delivery of this model.
- £460 million of management actions were delivered in the year that increased Solvency II Own Funds. This includes the impact of strategic asset allocation actions such as investment in illiquid assets which offer improved matching adjustment benefits in the annuity portfolios, together with methodology harmonisation and matching adjustment fund optimisation actions. £1.3 billion was invested in illiquid assets during the year, including equity release mortgage portfolios and private placements.
- New business written within the Open and Europe business segments during 2019 delivered expected incremental long-term cash generation of £240 million, and benefited from statutory auto-enrolment increases in the Workplace product.
- Four bulk purchase annuity market transactions were successfully completed with total contracted liabilities of £1.1 billion. The Group invested £98 million of capital to facilitate these transactions, reflecting the day 1 capital strain arising. The bulk purchase annuity investments are expected to increase the Group's longer term cash generation by £235 million, to be delivered over the lifetime of the policies.
- The acquisition of ReAssure Group was announced in December, adding significant scale and supporting future cash generation. The Group expects to deliver £800 million of cost and capital synergies by integrating the two businesses. The transaction is expected to add £7 billion of future cash generation which supports a proposed 3% increase in the dividend and additional investment in future growth opportunities.

PRIORITIES FOR 2020

- Deliver Phase 2 and continue progressing Phase 3 of the Standard Life acquisition transition programme.
- Complete the ReAssure Group acquisition by mid-2020, subject to regulatory approval.
- Implement further management actions.
- Grow the UK Open and Europe businesses.
- Seek further investment opportunities in the bulk purchase annuity market.
- Seek further acquisition opportunities

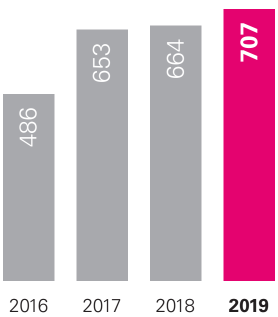
How we measure delivery

KPI

Operating companies' cash generation (£m)

£707m

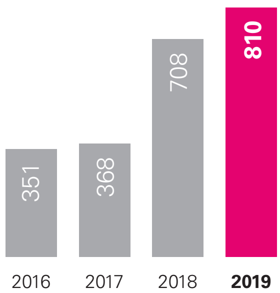
2018: £664m



Operating profit (£m)

£810m

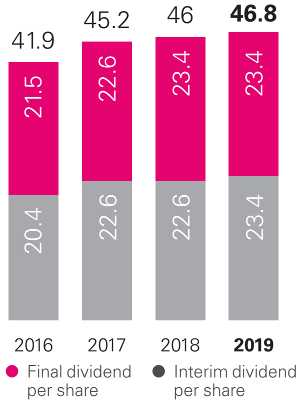
2018: £708m



Final dividend per share (pence)[1]

23.4p

2018: 23.4p



	Operating companies' cash generation (£m)	Operating profit (£m)	Final dividend per share (pence)[1]
Why is it important?	Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies. Maintaining strong cash flow delivery underpins debt servicing and repayment as well as financing shareholder dividends and future growth opportunities.	Operating profit is a non-GAAP measure used by management and 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. A reconciliation of operating profit of £810 million to the IFRS profit after tax of £116 million (2018: £410 million) is included in the Business Review section.	The Group's dividend per share helps measure how the Group delivers value to shareholders in accordance with its stable and sustainable dividend policy.
Analysis	Cash remitted reflects the generation of Free Surplus within the life companies and the benefit of management actions implemented in the period. Cash generation in 2019 was £707 million, net of a £250 million capital injection into Standard Life International in preparation for Brexit.	Operating profit has increased by £102 million compared to prior year, principally reflecting the impact of the inclusion of the Standard Life Assurance businesses for a full 12 month period, partly offset by the lower positive impact of management actions and demographic actuarial assumption changes compared to the prior period.	The Board has proposed a final dividend per share of 23.4 pence.
Target	To generate £3.9 billion of cash between 2019 and 2023.		
Linked	APM REM	APM	

1 Historic dividends per share rebased to take into account the bonus element of the rights issue completed in November 2016 and the rights issue completed in July 2018.

We continue to focus on the effective management of our risks and the efficient allocation of capital against those risks.

03 MANAGE CAPITAL

The Group aims to optimise its capital structure while addressing the diverse needs of various stakeholders, including policyholders, shareholders, lending banks, bondholders and regulators.

To ensure that unrewarded exposure to market volatility is minimised or the risks from market movements are managed, we execute our hedging strategy.

In addition, regular re-balancing of asset and liability positions is required to ensure that only those assets which deliver appropriate risk-adjusted returns are held within life funds, taking into account any policyholder guarantees.

KEY INITIATIVES AND PROGRESS IN 2019

- Capital synergies associated with the acquisition of the Standard Life Assurance businesses benefited the Group Solvency II surplus by £145 million primarily as a result of intra-group restructuring which improved the capital efficiency of the Group.
- The Group delivered an additional £45 million of management actions that decreased SCR in the year, excluding the impacts of the Standard Life Assurance capital synergies noted above. This included activities such as ERM securitisation and asset de-risking.
- In June 2019, Phoenix Group Holdings plc replaced its £900 million unsecured revolving credit facility with a new £1.25 billion facility, providing additional financial flexibility to the Group.
- The Group continued to work closely with the PRA during 2019 and made progress towards the implementation of a harmonised internal model.

  The Group is targeting completion of the pre-application submission to the regulator in April 2020, with the aim of receiving final approval in Q1 2021.
- In December, following the announcement of the acquisition of ReAssure Group, Fitch revised its rating outlooks of the Group and its main operating life companies to 'Positive' from 'Stable' and at the same time affirmed all the ratings of these entities.

PRIORITIES FOR 2020

- Implement further management actions to enhance the Group's capital position.
- Continue progress towards the approval of a harmonised internal model for the Group, including completion of the pre-application submission in April 2020.
- Complete delivery of the funding for the acquisition of ReAssure Group, the first step of which was the issuance of the capital qualifying $750 million Restricted Tier 1 bond in January 2020.

Read more about the Solvency II surplus and Shareholder Capital Coverage Ratio on page 42.

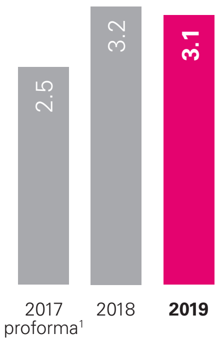
How we measure delivery

KPI

Solvency II surplus (£bn)

£3.1bn

2018: £3.2bn



Shareholder capital coverage ratio (%)

161%

2018: 167%

	Solvency II surplus (£bn)	Shareholder capital coverage ratio (%)
Why is it important?	The Solvency II surplus is the regulatory assessment of capital adequacy at PGH plc level. It is the excess of Eligible Own Funds over the Solvency Capital Requirement.	The Shareholder Capital Coverage Ratio demonstrates the extent to which shareholders' Eligible Own Funds cover the Solvency Capital Requirements. It is defined as the ratio of the Group Own Funds to Group SCR, after adjusting to exclude amounts relating to unsupported with-profit funds and unsupported Group Pension Schemes.
Analysis	The Group's Solvency II surplus of £3.1 billion has decreased (2018: £3.2 billion) as a result of the adverse impacts of economic variances, the Part VII transfer of the Standard Life Assurance Limited European business to the Group's Irish domiciled subsidiary and the capital strain of writing new business. This was largely offset by surplus generation and the delivery of management actions.	A coverage ratio of 161% remains in the middle of our target range of 140% to 180%.
Linked		APM

1 Pro forma assuming the acquisition of the Standard Life Assurance businesses took place on 31 December 2019.

Our focus on engagement and colleague empowerment creates a rich and diverse working environment, reflected in our continued status as one of the UK's top employers.

04 ENGAGE COLLEAGUES

At Phoenix, we have built a hugely successful, well respected business by putting our colleagues first.

Phoenix Group's ability to attract, retain and motivate colleagues was for the eighth year in succession, recognised by the Top Employers Institute as a Top Employer in the UK.

KEY INITIATIVES AND PROGRESS IN 2019

Talent and organisational development

The Talent and Development team has continued to design and deliver a varied programme of learning and development including leadership development, talent programmes, skills training, online learning, coaching and mentoring.

- As part of the Group's HR processes, there is an established succession plan which identifies, assesses and develops internal talent for material roles. In 2019 work has been done to independently assess and benchmark future leaders.
- Growing talent continues to deliver the Group's most senior appointments and a new combined Group talent programme, Changing the Game, was launched in June 2019 to accelerate the next generation leadership development with 36 delegates participating.
- The Group has fully utilised the English Apprenticeship levy funding and has seen over 100 delegates studying to gain qualifications in Project Management, Leadership and Management, Data Analytics and Accountancy. The success of these programmes continues to build internal capability and skills.

Colleague insight survey

Building on the cultural survey from 2018, the Group introduced a new six-monthly colleague insight survey.

- 78% of colleagues Group-wide (excluding SunLife) completed the survey and overall engagement was recorded at 65%. The make-up of this engagement index was revised from previous years and moved to a 4-point index that measures the most valid indicators of engagement.
- Employees were engaged through the colleague insight survey and networks to help develop and shape the introduction of new values for the Group: Passion, Responsibility, Growth, Courage and Difference. The values provide a common platform to further connect the business areas, and improve our understanding of what is required to be a high-performing organisation.

Volunteering and charity

Colleagues within the UK came together in 2019 to support a common cause across the year, helping to fund valuable life-saving missions in the communities in which our offices are based.

- The Group continues to recognise the importance of corporate charity partnerships. Since 2014, in excess of £876,000 has been donated between Midlands Air Ambulance Charity and London's Air Ambulance Charity. In addition, across the year, colleagues in Scotland have supported Scotland's Charity Air Ambulance and colleagues in Basingstoke have supported Hampshire and Isle of Wight Air Ambulance.
- All colleagues within the UK and Ireland are given the opportunity to make a difference in their local community through volunteering activity.
- Collectively Phoenix Group colleagues donated over 6,000 hours across the year, supporting a variety of beneficiaries ranging from a hospital, schools, hospices, local parks, environmental-focused projects to groups supporting the homeless and vulnerably-housed.

Wellbeing

A programme of wellbeing activity took place during the year, including onsite healthchecks, flu immunisation, mental health awareness training, private medical insurance cover, counselling and workshops supporting financial wellbeing matters.

- The Employee Assistance Programme was relaunched for all Phoenix Group colleagues during the year, offering free, independent and confidential advice on all matters affecting an individual's wellbeing.

Diversity and Inclusion

The Group is committed to creating an inclusive, attractive and safe work environment free of discrimination and where everyone is treated with dignity and respect. Colleagues are not to be disadvantaged in any way as a result of their age, race, gender, disability, religion or belief, sexual orientation, gender re-assignment, marriage and civil partnership or pregnancy and maternity. The Group is committed to achieving equality of opportunity and the equal treatment of existing colleagues and future recruits.

- Phoenix is a signatory to the Women in Finance Charter ('WIFC') and continues to strive for an inclusive culture which enables all colleagues to reach their full potential.
- The Group currently has women in 19% of the top 100 roles (target 30%), 42% of the Group's green/amber successors are female (target 40%) and the Group-wide mean gender pay gap is 23.8% (target 22%). The WIFC targets are based on an internal calculation looking at base salary only, rather than statutory gender pay gap calculations.

- Statutory gender pay statistics are calculated based on data gathered on 'Full Pay Relevant Employees' in the payroll period covering 5 April 2019. Of the employing entities within the Group, Pearl Group Management Services Limited ('PGMS') and Standard Life Assets and Employee Services Limited ('SLAESL') have the required 250+ so are included in the regulatory reporting. This covers 90.5% of the total workforce.

Gender Pay and Bonus Gap (PGMS)

Quartile	Female	Male
Lower Quartile	61%	39%
Lower Middle Quartile	44%	56%
Upper Middle Quartile	34%	66%
Upper Quartile	27%	73%

	Mean	Median
Pay Gap	26%	28%
Bonus Gap	68%	55%

	Female	Male
Proportion of employees receiving a bonus	95%	87%

Gender Pay and Bonus Gap (SLAESL)

Quartile	Female	Male
Lower Quartile	61%	39%
Lower Middle Quartile	59%	41%
Upper Middle Quartile	45%	55%
Upper Quartile	37%	63%

	Mean	Median
Pay Gap	22%	26%
Bonus Gap	35%	28%

	Female	Male
Proportion of employees receiving a bonus	90%	90%

Total workforce

	2019	2018
	4,417	**4,088**[1]
Male	**2,270**	2,097[1]
Female	**2,147**	1,991[1]
Directors (includes Non-Executive Directors)	**12**	12
Male	**8**	8
Female	**4**	4
Executive Committee	**9**	9
Male	**8**	8
Female	**1**	1
Executive Committee Direct Reports	**33**	36
Male	**23**	25
Female	**10**	11
Workforce that is of Black, Asian or Minority Ethnic ('BAME') background	**207**[2]	141[3]

1 Figures do not include workforce based in Germany/Austria.
2 Figures do not include workforce based in SunLife or Germany/Austria. BAME data is not currently recorded for 55% (1,735 colleagues).
3 Figures do not include workforce from Standard Life Assurance Limited or SunLife. Data relates only to Phoenix Corporate and Phoenix Life companies.

Reward

- The Group continues to attract and retain talent by offering a competitive range of benefits and development opportunities.
- The Group has been paying at least the Real Living Wage since 2014 to colleagues and will continue to do so in the future as part of its long-term ethical investment in its people.
- Private medical insurance cover is available to all colleagues across the Group regardless of their status within the organisation.
- All Group employees participate in an Annual Incentive Plan and are able to become shareholders in the Company. Over half of the colleague population are voluntarily participating in one or more of the sharesave or share incentive plans.

PRIORITIES FOR 2020

- Remain an employer of choice, offering rewarding careers and opportunities, promoting physical, financial and mental wellbeing in the workplace and empowering a wholly inclusive workforce.
- Provide a common grading structure and benefit proposition for all colleagues within the Group.
- Launch a revised Diversity and Inclusion strategy focusing on four pillars: Gender, Ethnicity, Disability and Mental Health, and Social Mobility.
- Shape the Diversity and Inclusion strategy to accelerate the rate of progress in areas where less tangible impact has been made, supporting our aspiration to reach our set targets, build a diverse talent pipeline and create a culture of fairness and inclusion across the Group.
- Maintain support of our communities across the Group through employee volunteering, fundraising and engagement.

INSPIRING CONFIDENCE THROUGH FINANCIAL DELIVERY

"The Group performed strongly in 2019, meeting or exceeding all of its financial targets set for the year. These results demonstrate the continued management of our in-force book to deliver cash generation and resilience together with a focus on growth through new business."

James McConville
Group Finance Director and Group Director, Scotland

IFRS

The Group generated an increased operating profit of £810 million for the year (2018: £708 million), reflecting the contribution of the Standard Life Assurance businesses for a full 12 month period post completion of the acquisition. This has been partly offset by the lower positive impact of management actions and demographic actuarial assumption changes within operating profit compared to the prior period.

The IFRS profit after tax for the year is £116 million (2018: £410 million). As expected the IFRS results continue to be impacted by investment variances arising from the Group's hedging programme, which is calibrated to protect the Group's Solvency II surplus. Improving equity markets during 2019 generated losses on these hedging instruments, which together with the provision of costs associated with the delivery of transition activity and the recognition of a full year's amortisation charge on intangible assets recognised on acquisition of Standard Life Assurance, has more than offset the increased operating profit.

CASH

Cash generation remains our key reporting metric.

The Group's cash generation of £707 million in the year allowed it to exceed the upper end of its £600 to £700 million target range for that period, and is stated net of a £250 million injection of capital into our European business to prepare it for Brexit.

CAPITAL POSITION

The Group's Solvency II capital surplus position of £3.1 billion (2018: £3.2 billion) remains resilient with the adverse impacts of economic variances, the Part VII transfer of the Standard Life Assurance Limited European business to the Group's Irish domiciled subsidiary, and the capital strain of writing new business being largely offset by the delivery of management actions.

Our solvency ratio of 161% (2018: 167%) remains comfortably in the middle of our target range of 140 to 180%.

Note: Presentation of financial information
IFRS results for the year ended 31 December 2018 include the Standard Life Assurance businesses for the four month period from 1 September, post completion of the acquisition.

The Group's strong financial position has been recognised by Fitch Ratings who revised its Insurer Financial Strength rating of A+ for Phoenix from a 'stable' to 'positive' outlook in December 2019, following announcement of the acquisition of ReAssure Group.

GROWTH

Group Assets under Administration ('AUA') increased to £248.3 billion in the year (2018: £226.5 billion) benefiting from positive market movements, notably strong performance in global equity markets and net inflows from the Group's UK Open business. This was partly offset by net outflows from the Group's Heritage businesses. Gross in-flows for the UK Open business are down on the prior year, principally reflecting challenging market conditions for the Wrap product.

Long-term cash generation is expected to increase by £475 million as a result of new business transacted in the year (2018: £530 million). This includes the impact of four BPA transactions executed in the period, together with new business from our UK Open and Europe segments.

LOOKING AHEAD

Phoenix continues to be on track to achieve its long-term cash generation target for the five-year period 2019 to 2023 which has been updated by £0.1 billion to £3.9 billion, reflecting new business written in 2019. The Group looks forward to the future from a position of financial strength.

Alternative performance measures

The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with Generally Accepted Accounting Principles ('GAAP') or statutory reporting framework. These metrics are known as Alternative Performance Measures ('APMs').

The Group's strategic focus prioritises the generation of sustainable cash flows from its operating companies through the margins earned on different life and pension products and the release of capital requirements. Performance metrics are monitored where they support this strategic purpose, which includes ensuring the capital strength of the Group is maintained.

As a result, GAAP measures typically used to assess financial performance, such as IFRS profit after tax, are considered by the Board to be of lower importance when assessing Phoenix's performance against its strategy. IFRS results exclude any changes to the capital requirements and therefore do not fully reflect the performance of the Group.

As such, the key performance indicators for the Group mainly focus on cash generation and capital strength. Further information on the Group's APMs can be found on page 264, including definitions, why the measure is used and if applicable, how the APM can be reconciled to the nearest GAAP measure.

CASH GENERATION

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

Please see the APM section on page 264 for further details of this measure.

Maintaining strong cash flow delivery underpins debt servicing and repayments as well as shareholder dividends.

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

Cash receipts

Cash generated by the operating companies during 2019 was £707 million (2018: £664 million). Cash generation is reported net of a £250 million cash remittance into the Group's Irish domiciled subsidiary, Standard Life International. This capital injection preceded a Part VII transfer of the Irish, German and Austrian policies of Standard Life Assurance Limited to Standard Life International, completed in March 2019 as part of preparations to ready the business for Brexit.

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Cash and cash equivalents at 1 January	**346**	535
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**367**	664
Cash receipts from Standard Life Assurance	**565**	–
Cash receipts from Management Services companies	**25**	–
Cash remittances to Standard Life International	**(250)**	–
Total cash receipts[1]	**707**	664
Uses of cash:		
Operating expenses	**(43)**	(32)
Pension scheme contributions	**(50)**	(49)
Debt interest	**(112)**	(88)
Non-operating cash outflows	**(137)**	(216)
Uses of cash before debt repayments and shareholder dividend	**(342)**	(385)
Shareholder dividend	**(338)**	(262)
Total uses of cash	**(680)**	(647)
Equity raise (net of fees)	**–**	934
Debt issuance (net of fees)	**–**	932
Cost of acquisitions	**–**	(1,971)
Support of BPA activity	**(98)**	(101)
Cash and cash equivalents at 31 December	**275**	346

1 Includes £58 million and £54 million received by the holding companies in respect of tax losses surrendered to Phoenix Life and Standard Life Assurance respectively (2018: £39 million – Phoenix Life).

All amounts in the Business Review section marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' section on page 264 for further details of these measures.

All amounts in the Business Review section marked with a 'REM' are KPIs linked to executive remuneration. See 'Directors' Remuneration Report' on page 99 for further details of executive remuneration including the financial and non-financial performance measures on which it is based.

CASH GENERATION CONTINUED

Cash outflows
The operating expenses of £43 million (2018: £32 million) principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Annual pension scheme contributions of £50 million (2018: £49 million) are made on a monthly basis and include total contributions of £40 million into the Pearl Group Scheme and £10 million into the Abbey Life Scheme, including £4 million paid into Charged Accounts and held in escrow.

Debt interest of £112 million (2018: £88 million) increased principally as a result of the annual coupon payment on the £445 million (€500 million) Tier 2 bond issued in September 2018.

Non-operating net cash outflows
Non-operating net cash outflows of £137 million (2018: £216 million) principally comprises £69 million of recharged staff costs and Group expenses associated with corporate related projects, including £54 million of costs related to the transition of the acquired Standard Life Assurance businesses and £9 million of costs related to the acquisition of the ReAssure Group. It also includes £45 million of premium, collateral pledged and cash paid to close out derivative instruments entered into by the holding companies to hedge the Group's exposure to currency risk as well as equity risk arising from the Group's acquisition of the ReAssure Group.

The remainder of the balance includes £4 million of costs related to the separation of businesses from Standard Life Aberdeen plc and £19 million of net other items.

Shareholder dividend
The shareholder dividend of £338 million represents the payment of £169 million in May for the 2018 final dividend and the payment of the 2019 interim dividend of £169 million in September. The final 2019 dividend per share proposed is 23.4 pence.

Equity raise (net of fees)
The £934 million equity issuance in 2018 relates to proceeds, net of fees, from the rights issue associated with the financing of the acquisition of the Standard Life Assurance businesses.

Debt issuance (net of fees)
The £932 million debt issuance in 2018 comprises the net proceeds of the Tier 1 Notes of £500 million completed in April 2018 and the £445 million (€500 million) Tier 2 bond issuance in September 2018.

Illustrative stress testing[1]	1 Jan 2019 to 31 Dec 2023 £bn
Base case five-year target	3.9
Following a 20% fall in equity markets	4.0
Following a 15% fall in property values	3.6
Following a 73bps interest rates rise[2]	4.0
Following a 88bps interest rates fall[2]	3.7
Following credit spread widening[3]	3.6
Following 6% decrease in annuitant mortality rates[4]	3.3
Following a 10% increase in assurance mortality rates	3.8
Following a 10% change in lapse rates[5]	3.5

1 Assumes stress occurs on 1 January 2020.
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 months 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.

Cost of acquisitions
Cost of acquisitions of £1,971 million in 2018 relates to the cash consideration settlement to finance the acquisition of the Standard Life Assurance businesses.

Support of BPA activity
£98 million (2018: £101 million) of funding has been provided to the life companies to support BPA new business.

Target cash flows
The Group set a short-term cash generation target of £600 to £700 million for 2019 (net of the £250 million cash remittance into Standard Life International as part of Brexit preparations) and with £707 million of cash generation achieved, the Group has exceeded the upper end of its target range.

The Group's cash generation target for the five year period 2019 to 2023 has been upgraded by £0.1 billion to £3.9 billion, to reflect new business written in the year. The resilience of the target is demonstrated by the illustrative stress testing in the table to the left.

Expected cash flows after 2024
There is an expected £8.8 billion of cash to emerge from 2024. This does not include any management actions from 2024 onwards or any additional value from future new business from the Group's Open business and BPA transactions. It also does not reflect the impact of any future M&A including the ReAssure Group acquisition.

£707m

OPERATING COMPANIES' CASH GENERATION
APM REM

ASSETS UNDER ADMINISTRATION AND NEW BUSINESS

The Group's AUA represent assets administered by or on behalf of the Group, covering both policyholder funds and shareholder assets. This includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group but for which beneficial ownership resides with customers.

AUA provides an indication of the potential earnings capability of the Group arising from its insurance and investment business, whilst AUA flows provide a measure of the Group's ability to deliver new business growth.

A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 256. Please see the Alternative Performance Measure ('APM') section on page 264 for further details of this measure.

Group AUA
Group AUA increased to £248.3 billion in the year (2018: £226.3 billion) benefiting from positive market movements, notably strong performance in global equity markets, and net inflows from the Group's UK Open business; partly offset by net outflows from the Group's Heritage businesses.

UK Heritage net flows
UK Heritage net outflows of £(6.0) billion (2018 pro forma[1]: £(7.1) billion) reflect policyholder outflows on claims such as maturities, surrenders and annuities in payment, net of total premiums received in the period from in-force contracts.

It includes £1.1 billion (2018: nil) of inflows arising from the Group's buy-in of the remaining pensioner liabilities of the PGL Pension Scheme and £1.1 billion (2018: £1.5 billion) of new business inflows arising from BPA transactions completed in the year.

UK Open flows
The UK Open segment experienced gross inflows of £9.8 billion (2018 pro forma[1]: £10.7 billion) during the year, of which £6.0 billion (2018 pro forma[1]: £7.4 billion) was received in respect of new contracts transacted in the period.

Strong gross inflows in the Workplace product of £4.9 billion (2018 pro forma[1]: £4.4 billion) benefited from statutory pensions auto-enrolment increases.

Gross inflows in the Wrap product of £3.0 billion (2018 pro forma[1] : £4.1 billion) were adversely impacted by challenging market conditions, notably market uncertainty arising from Brexit combined with a decline in transfers from defined benefit to defined contribution pension schemes.

Retail products experienced gross inflows of £1.9 billion (2018 pro forma[1]: £2.1 billion).

Outflows for the UK Open business were £8.1 billion (2018 pro forma: £7.0 billion) mainly due to run-off, resulting in net inflows of £1.7 billion (2018 pro forma[1] : £3.7 billion).

Europe net flows
The European business contributed a small net outflow of £0.1 billion to the Group's AUA.

Other movements including markets
AUA increased by £26.4 billion as a result of other movements, largely driven by the impact of strong global equity market performance in the year, together with the positive impact of falling yields on the fair value of fixed interest rate securities.

New business contribution
In respect of our Open and Europe business segments, we monitor new business contribution as the Group's measure of the future value delivered through the writing of new business.

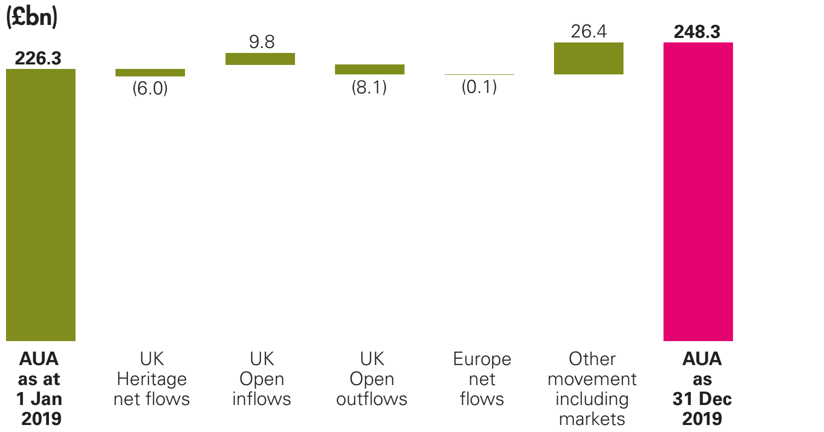
New business contribution represents the increase in Solvency II shareholder Own Funds (net of tax) arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net

£475m
INCREMENTAL LONG-TERM CASH GENERATION APM

£248bn
ASSETS UNDER ADMINISTRATION APM

£158m
UK OPEN AND EUROPE NEW BUSINESS CONTRIBUTION APM

Movement In AUA (£bn)



1 The pro forma position assumes the acquisition of the Standard life Assurance businesses took place on 1 January 2018.

ASSETS UNDER ADMINISTRATION AND NEW BUSINESS CONTINUED

of 'Day 1' acquisition costs and is calculated as the value of expected cash flows from new business sold, discounted at the risk-free rate.

New business contribution for 2019 was £158 million (2018 pro forma*: £154 million). This includes £153 million (FY18 pro forma*: £137 million) from the Group's UK Open business which benefited from the statutory pensions auto-enrolment increases; and £5 million (2018 pro forma*: £17 million) from the Europe business which was adversely impacted by lower gross flows and the impact of assumption changes.

Long-term cash generation
As a result of new business transacted in the year, long-term cash generation is expected to increase by £475 million (2018 pro forma*: £530 million), comprising £240 million from the UK Open and European business segments (2018 pro forma*: £280 million) and £235 million from BPA transactions (2018 pro forma*: £250million).

The UK Open long-term cash generation is down on the prior year, reflecting the overall decline in gross in-flows, primarily from Wrap inflows. Long-term cash generation from the Workplace product benefited by circa £50 million as a result of auto-enrolment increases in the year.

Four BPA transactions were completed in the year, reflecting the Group's selective and proportionate approach to its participation in this market.

CAPITAL MANAGEMENT

Group Solvency II Surplus
A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's Solvency Capital Requirement ('SCR'). The Group's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance contract liabilities, taxation and intangible assets.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200 year event'.

The Group has approval from the PRA for the use of its Internal Model ('Phoenix Internal Model') to assess capital requirements, the scope of which was extended to include the acquired AXA Wealth and Abbey Life businesses in March 2017 and March 2018 respectively.

The Standard Life Assurance businesses determine their capital requirements in accordance with an approved Internal Model ('Standard Life Internal Model'), which was in place prior to the acquisition of the Standard Life Assurance businesses. The one exception to this is Standard Life International, the Group's Irish subsidiary, which remains on Standard Formula. As a result, the Group currently uses a Partial Internal Model to calculate Group SCR, aggregating outputs from the existing Phoenix Internal Model, the Standard Life Internal Model and Standard Life International's Standard Formula, without further diversification. A harmonisation programme to combine the two Internal Models into a single Internal Model is ongoing.

£3.1bn

GROUP SOLVENCY II SURPLUS (ESTIMATED)

161%

GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)
APM

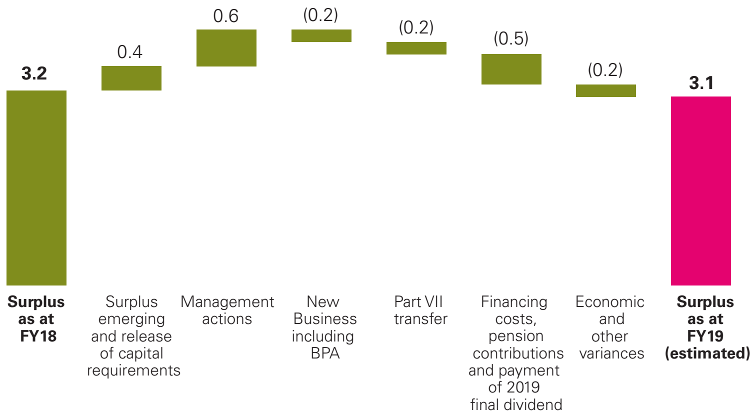
The Group Solvency II surplus position at 31 December is set out in the table below:

	Estimated position as at 31 December 2019 £bn	Estimated position as at 31 December 2018 £bn
Own Funds[1]	**10.8**	10.3
SCR[2]	**(7.7)**	(7.1)
Surplus[3]	**3.1**	3.2

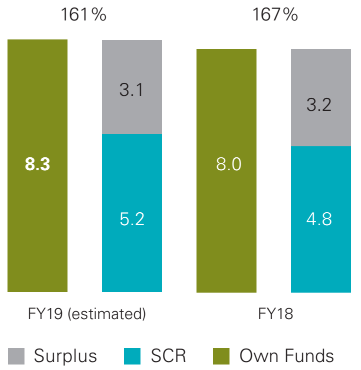
1 Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months.
2 The SCR reflects the risks and obligations to which Phoenix Group Holdings plc is exposed.
3 The surplus equates to a regulatory coverage ratio of 140% as at 31 December 2019 (2018: 146%).

* The pro forma position assumes the acquisition of the Standard life Assurance businesses took place on 1 January 2018.

Change In Group Solvency II Surplus (£bn)



Group Shareholder Capital Coverage Ratio (£bn)



Change in Group Solvency II Surplus (estimated)
The Group Solvency II surplus has decreased to £3.1 billion (2018: £3.2 billion).

Surplus generation and the impact of the reduction in capital requirements for the Group added £0.4 billion to the surplus during the year.

Management actions undertaken increased the surplus by £0.6 billion. This includes £0.1 billion in respect of capital synergies associated with the acquisition of the Standard Life Assurance businesses, primarily as a result of internal group restructuring activities. Other management actions of £0.5 billion include further investment in illiquid assets within annuity portfolios, the optimisation of matching adjustment portfolios and asset de-risking initiatives.

The impact of new business written during the year reduced the surplus by £0.2 billion. This primarily reflects the capital strain associated with BPA transactions executed in the period and vesting annuities in the Heritage business segment. The Open business continues to be capital light.

The Part VII transfer of Standard Life Assurance Limited's Irish, German and Austrian policies to Standard Life International resulted in a £0.2 billion reduction in the surplus reflecting increases in the SCR and risk margin as a result of the more onerous capital requirements and a loss of diversification under Standard Formula compared to the Standard Life Internal Model, together with the recognition of counterparty default risk.

Financing costs, pension contributions and dividend payments (including accrual for the 2019 final dividend) amount to £0.5 billion and reduced the surplus in the period.

The adverse impact of economic and other variances reduced the surplus by £0.2 billion. The positive impact of changes to longevity assumptions of circa £0.1 billion, including updates to the latest Continuous Mortality Investigation 2018 projection tables, has been more than offset by the strengthening of assumptions used to determine the SCR held in respect of the Group's £2.8 billion Equity Release Mortgages portfolio, and the adverse impact of updates to other demographic assumptions including mortality.

Other variances also include the net adverse impact of economic and market movements in the period, notably falling yields and foreign exchange, together with the costs of corporate related projects.

Group Own Funds have benefitted by circa £0.3 billion as a result of recognising the benefits (net of associated costs) that will be delivered by our Standard Life transition activities including the end state Customer Service and IT operating model. This is largely offset in Solvency II surplus by an increase in SCR associated with the risk of this transition.

Standard Life Assurance Limited and the Phoenix Life entities undertook a mandatory recalculation of Transitional Measures on Technical Provisions ('TMTP') as at 31 December 2019.

Group Shareholder Capital Coverage Ratio (estimated)
The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and unsupported Group pension schemes of £2.1 billion (2018: £2.1 billion). Surpluses within the with-profit funds and the Group Pension Schemes, whilst not included in the Solvency II surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

In the calculation of the Solvency II surplus, the SCR of the unsupported with-profit funds and the unsupported Group Pension Schemes is included, but the related Own Funds are recognised only to a maximum of the SCR amount.

CAPITAL MANAGEMENT CONTINUED

This approach suppresses the regulatory capital coverage ratio calculated as eligible own funds as a percentage of SCR.

As a result, the Group focuses on a shareholder view of the capital coverage ratio which it considers to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of Eligible Own Funds to SCR adjusted to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the unsupported Group Pension Schemes.

The Group targets a shareholder capital coverage ratio in the range of 140% to 180%.

Please see the Alternative Performance Measures section on page 264 for further details of this measure.

The Group Shareholder Capital Coverage ratio is 161% as at 31 December 2019 (2018: 167%).

Sensitivity and scenario analysis

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing are provided opposite and demonstrate the resilience of the Group Solvency II surplus.

The sensitivities reflect the impact of any strong with-profit funds or pension schemes that may become weak after application of the stress.

Life Company Free Surplus (estimated)

Life Company Free Surplus represents the Solvency II surplus of the Life Companies that is in excess of their Board approved capital management policies.

As at 31 December 2019, the Life Company Free Surplus is £1.2 billion (2018: £1.0 billion). The table below analyses the movement during the period.

As the analysis is presented on a net of tax basis, cash remittances to the holding companies excludes £112 million of amounts received by the holding companies in respect of tax losses surrendered to the Life companies that is included in the Group's Cash Generation metric.

Cash remittances from holding companies relate to the £250 million capital injection into Standard Life International as part of the Group's Brexit planning activities.

Illustrative stress testing[1]	Estimated PGH Solvency II surplus £bn
Base: 1 January 2020	**3.1**
Following a 20% fall in equity markets	**3.2**
Following a 15% fall in property values	**2.9**
Following a 73bps interest rates rise[2]	**3.1**
Following a 88bps interest rates fall[2]	**3.0**
Following credit spread widening[3]	**2.8**
Following 6% decrease in annuitant mortality rates[4]	**2.5**
Following 10% increase in assurance mortality rates	**3.0**
Following a 10% change in lapse rates[5]	**2.7**

1 Assumes stress occurs on 1 January 2020.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 120bps spread widening across ratings and includes allowance for defaults/downgrades.
4 Equivalent of six months 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.

	Estimated position as at 31 December 2019 £bn
Opening Free Surplus	**1.0**
Surplus generation and run-off of capital requirements	**0.5**
Management actions	**0.6**
Part VII transfer	**(0.3)**
New business	**(0.1)**
Economic, financing and other	**0.1**
Free Surplus before cash remittances	**1.8**
Cash remittances to holding companies	**(0.9)**
Cash remittances from holding companies	**0.3**
Closing Free Surplus	**1.2**

IFRS RESULTS

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

Please see the APM section on page 264 for further details of this measure.

The Group has generated an operating profit of £810 million (2018: £708 million). The increase compared to the prior year is primarily driven by the inclusion of the Standard Life Assurance businesses for a full 12 month period post completion of the acquisition in August 2018. This has been partly offset by the lower positive impact of management actions and demographic actuarial assumption changes within operating profit compared to the prior period.

IFRS profit after tax
The IFRS profit after tax attributable to owners is £116 million (2018: £410 million). The decrease primarily reflects net negative economic variances arising on hedging positions held by the life companies to protect the Group's Solvency II surplus position, compared to net positive variances in the prior year together with a full year's amortisation charge on intangibles arising on acquisition of the Standard Life Assurance businesses. The 2018 result also included a £141 million gain recognised on the acquisition of the Standard Life Assurance businesses. These negative factors have been partly offset by the improved operating profit detailed above.

£810m

OPERATING PROFIT
APM

£116m

IFRS PROFIT AFTER TAX

Basis of operating profit
Operating profit generated by the UK Heritage, UK Open and Europe business segments is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudential margins and the interest cost of unwinding the discount on the liabilities).

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

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and persistency, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are accounted for outside of operating profit. Operating profit is net of policyholder finance charges and policyholder tax.

UK Heritage operating profit
The Group's UK Heritage business segment does not actively sell new life or pension policies and runs-off gradually over time.

The with-profit operating profit of £126 million (2018: £101 million) represents the shareholders' one-ninth share of the policyholder bonuses. The increase on prior year primarily reflects the full 12 months contribution from the Standard Life Assurance businesses.

The with-profit funds where internal capital support has been provided generated an operating profit of £18 million (2018: £20 million). The profit is principally driven by the net positive impact of updating actuarial assumptions, including longevity.

The non-profit and unit-linked funds operating profit increased to £577 million

Profit/(loss) after tax	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
UK Heritage	**694**	640
UK Open	**73**	41
Europe	**52**	22
Management Services companies	**26**	25
Group costs	**(35)**	(20)
Operating profit	**810**	708
Investment return variances and economic assumption changes on long term business	**(177)**	283
Variance on owners' funds	**13**	(193)
Amortisation of acquired in-force business, customer relationships and other intangibles	**(395)**	(207)
Other non-operating items	**(169)**	(38)
Profit before finance costs and tax attributable to owners	**82**	553
Finance costs attributable to owners	**(127)**	(114)
(Loss)/Profit before the tax attributable to owners of the parent	**(45)**	439
Profit before tax attributable to non-controlling interests	**31**	31
(Loss)/profit before tax attributable to owners	**(14)**	470
Tax credit/(charge) attributable to owners	**130**	(60)
Profit after tax attributable to owners	**116**	410

IFRS RESULTS CONTINUED

(2018: £524 million), reflecting the full 12 months contribution from the Standard Life Assurance businesses and the impact of BPA transactions entered into in the period. This has been partly offset by the lower positive impact of management actions and the delivery of actuarial modelling enhancements in the prior period. Updating actuarial assumptions had a net positive impact of £183 million on the result for the year (2018: £205 million) and included the impact of updating longevity base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2018 core projection tables.

The long-term return on owners' funds of £(27) million (2018: £(5) million) reflects the return on owners' assets, primarily cash-based assets and fixed interest securities, and the impact of expenses borne by the shareholder. The loss in the period principally reflects certain one-off project costs and the settlement of VAT on certain investment expenses that were borne on behalf of policyholders.

UK Open operating profit

The Group's UK Open business segment delivered an operating profit of £73 million (2018: £41 million). This includes operating profits generated across the Workplace, Retail and Wrap product lines, including new business distributed through our Strategic Partnership with Standard Life Aberdeen plc and under the Group's SunLife brand. The increase in operating profit compared to the prior year reflects the full 12 months contribution from the Standard Life Assurance businesses, partly offset by the adverse impact of updating mortality assumptions on the SunLife business to reflect latest experience.

UK Heritage operating profit	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
With-profit	**126**	101
With-profit where internal capital support provided	**18**	20
Non-profit and unit linked	**577**	524
Long-term return on owners' funds	**(27)**	(5)
UK Heritage operating profit before tax	**694**	640

Europe operating profit

The Europe business segment which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £52 million during the year (2018: £22 million). Again, the increase principally reflects the inclusion of the 12 months contribution of the Standard Life Assurance businesses.

Management services companies operating profit

The operating profit for management services of £26 million (2018: £25 million) comprises income from the life and holding companies in accordance with the respective management services agreements less fees related to the outsourcing of services and other operating costs. The increase compared to the prior period is principally driven by a revised management services agreement that was in place for the full period in respect of the acquired Abbey Life business, partly offset by the impacts of run-off. A management services agreement has been signed in respect of the Standard Life Assurance businesses and will be effective from 1 January 2020. See other non-operating items below for further detail.

Group costs

Group costs in the period were £35 million (2018: £20 million). They mainly comprise project recharges from the service companies and the returns on the scheme surpluses/deficits of the Group staff pension schemes. The increase in costs compared to the prior period principally reflects a lower return on the scheme surplus of the PGL Pension Scheme, following the buy-in transaction that took place in March 2019 (see note G1 to the IFRS financial statements).

Investment return variances and economic assumption changes on long-term business

The net adverse investment return variances and economic assumption changes on long-term business of £177 million (2018: £283 million positive) primarily arise as a result of losses on hedging positions held by the life funds and reflect improving equity markets in the year. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. These adverse impacts have been partly offset by the positive impacts of strategic asset allocation activities, including investment in higher yielding illiquid assets, and lower swap curve yields experienced during the period.

Variance on owners' funds

The positive variance on owners' funds of £13 million (2018: £193 million negative) is principally driven by gains on foreign currency swaps held by the holding companies to hedge exposure of future life company profits to movements in exchange rates. The prior year result included 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. Losses of £143 million were incurred on these instruments, together with option premiums of £22 million.

Amortisation of acquired in-force business and other intangibles

The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates. Amortisation of acquired in-force business during the year totalled £375 million (2018: £189 million) with the increase from the prior year driven by a full 12 months amortisation charge in respect of the acquired-in-force business relating to the Standard Life Assurance businesses. Amortisation of other intangible assets totalled £20 million in the year (2018: £18 million).

Other non-operating items
Other non-operating items of £169 million negative (2018: £38 million negative) includes an £80 million benefit arising from updated expense assumptions for insurance contracts, reflecting reduced future servicing costs as a result of transition activity. Such benefits on the Group's investment contract business will typically be recognised as incurred. This benefit has been more than offset by staff and external costs incurred or provided for in the period with regard to transition activity and the transformation of the Group's operating model and extended relationship with Tata Consultancy Services, totalling £190 million, of which £175 million relates to external costs.

Also included in the net other non-operating items are £5 million of costs associated with preparations to ready the business for Brexit, costs associated with other corporate related projects of £41 million, including the Group's Internal Model harmonisation project and the acquisition of ReAssure Group and net other items totalling an expense of £13 million.

The prior period result included 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 and a net benefit of £45 million reflecting anticipated cost savings associated with the move to a single, digitally enhanced outsourcer platform. These amounts were more than offset by a provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products, 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 and £7 million incurred under the ongoing transition programme. It also included net other one-off items totalling £47 million, including other corporate project costs.

Finance costs
Finance costs of £127 million (2018: £114 million) have increased by £13 million, reflecting the interest charges on the €500 million Tier 2 debt issuance in September 2018.

Tax credit attributable to owners
The Group's approach to the management of its tax affairs is set out in its Tax Strategy document which is available in the corporate responsibility section of the Group's website. The Group's tax affairs and tax controls are managed by an in-house tax team who report on them to the Board and the Audit Committee on a regular basis throughout the year. The Board believes that its Tax Strategy accords with the Group's approach to its wider Corporate Social Responsibility. The tax strategy was refreshed in August 2019 and published in accordance with the relevant statutory requirements.

Implicit in the Group's Tax Strategy and the management of its tax affairs is a desire for greater transparency and openness that will help the Group's stakeholders better understand the published tax numbers. In this way the Group aims to participate in a substantive manner with HMRC and other insurance industry stakeholders on consultative documents and tax law changes that potentially impact on the insurance sector.

The Group's insurance operations are primarily based in the UK and are liable to tax in accordance with applicable UK legislation. Following the acquisition of the Standard Life Assurance businesses, the Group's overseas operations have increased, in Ireland and Germany in particular. The Group complies with the local tax obligations in the jurisdictions in which it operates. Phoenix Group Holdings was a Jersey resident holding company until 31 January 2018 when it became tax resident in the UK.

The Group tax credit for the period attributable to owners is £130 million (2018: £60 million tax charge) based on a loss (after policyholder tax) of £14 million (2018: £470 million profit). The significant tax adjustments to the Owners' loss before tax are primarily due to the impact of a deferred tax rate reduction relating primarily to AVIF of £(50) million, a prior year credit for shareholders of £(51) million, the impact of non-tax deductible costs of £22 million and profits taxed at a rate other than the statutory rate of £(13) million. See note C6 to the IFRS consolidated financial statements for further analysis.

Financial leverage
The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions. The financial leverage ratio as at 31 December 2019 (as calculated by the Group in accordance with Fitch Ratings' stated methodology) is 22% (2018: 22%). This is below the target range management considers to be associated with maintaining an investment grade rating of 25% to 30%.

Financial leverage is calculated as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, the unallocated surplus, the Tier 1 Notes and non-controlling interests.

RISK MANAGEMENT

THE GROUP'S RISK MANAGEMENT FRAMEWORK

The Group's Risk Management Framework ('RMF') embeds proactive and effective risk management across the Group. It seeks to ensure that risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes.

Over 2019 the Group completed the design and implementation of a harmonised framework following the acquisition of Standard Life Assurance businesses; this takes the best of legacy-Phoenix and legacy-SLAL frameworks and is designed to be appropriate for the risk profile of the enlarged Group.

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

RISK ENVIRONMENT

The Group continues to manage a significant level of change activity. Operational capacity across the Group, and within our outsourcing partners, is being actively monitored by management and Boards to ensure it continues to meet business demands and to prevent any adverse impact to customer outcomes and business performance.

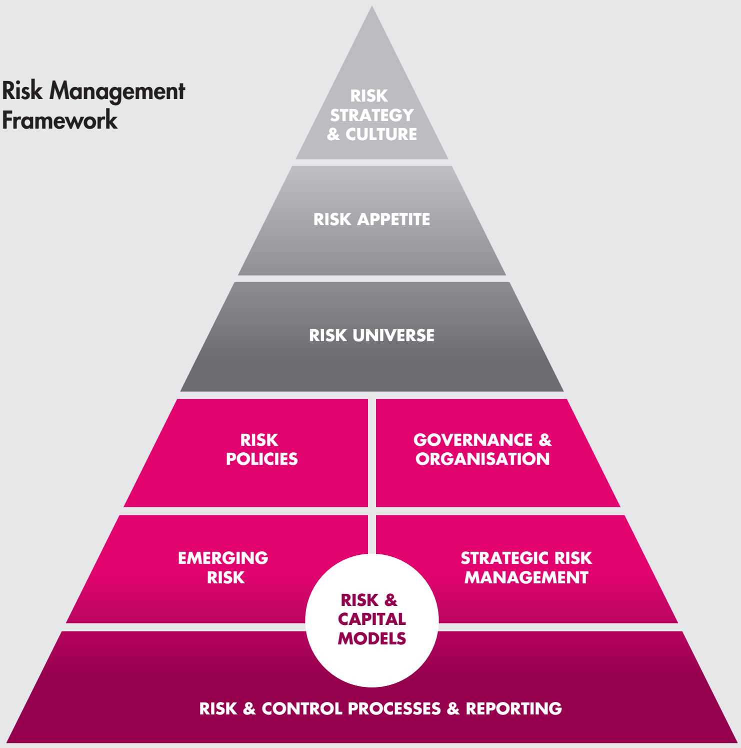
In November the Group announced an enlarged partnership with TCS to drive growth in our UK Open workplace business and meet the future needs of our workplace clients, customers and their advisers. The Group's Supplier Management Model will continue to provide the foundation for effective oversight of the increasing role that strategic partners play in the delivery of the Group's strategy.

Externally, whilst the UK general election result in December provided greater political certainty, market risk remains heightened due to the possible outcomes of ongoing Brexit trade negotiations and wider geopolitical uncertainty. The Group remains well prepared for operational impacts as a result of potential Brexit outcomes.

The Group continues to actively monitor and take action against potential financial and operational impacts due to the spread of COVID-19.

In December the Group announced the acquisition of ReAssure Group plc, a leading life insurance closed book consolidator in the UK. This acquisition is highly attractive for the Group. The acquisition is subject to a number of pre-completion conditions including regulatory approval. On completion the acquisition would be expected to heighten existing risks that the Group is exposed to, particularly those related to transition activity for acquired businesses.

Risk Management Framework



> "Work to harmonise our Risk Management Framework is now complete. This framework is designed to be appropriate for the risk profile of the enlarged Group."

Jonathan Pears
Group Chief Risk Officer

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

The Group's ORSA cycle brings together inter-linked risk management, capital and strategic processes.
The ORSA provides:

- processes to identify, assess, control and monitor risks the Group faces;
- an understanding of current and potential risks to the business; including financial and non-financial risks under base and stressed scenarios;
- our appetite to accept these risks and how the Group manages them; and
- a forward looking, internal assessment of the Group's solvency position in respect of its risk profile and how it is likely to change given business plans and strategy.

The ORSA plays an important role in supporting strategic decision-making and strategy development at our Boards and risk committees.

ORSA process cycle

RISK STRATEGY AND CULTURE

Risk Strategy

Our risk strategy is to take rewarded risks that are understood, managed effectively and are consistent with our overall Group Vision, Purpose and Mission.

We achieve our risk strategy not by risk avoidance, but through the identification and management of an acceptable level of risk (our 'risk appetite') which ensures that the Group is appropriately rewarded for the risks that are taken.

Risk Culture

Risk culture is the sum of our shared values, behaviours and attitudes towards risks faced by the Group and our customers. Our risk culture reflects the way we think and act, both individually and collectively.

We seek to grow an environment that supports informed decision-making and controlled risk taking. The creation of this environment is enabled through the Group's Values of Passion, Responsibility, Growth, Courage and Difference. Underpinning each of these are the individual and collective attitudes and behaviours that allow this environment to be realised.

Indicators of risk culture include focus on customers, encouragement of challenge, willingness to talk about and learn from mistakes, effectiveness of governance, and rewarding good risk management.

RISK APPETITE

Risk appetite is used to define the amount of risk that the Group is willing to accept in the pursuit of enhancing customer and shareholder value, and attaining our strategic objectives.

The risk appetite statements establish the risk boundaries within which we are prepared to operate and set the tolerance for delivery against our objectives. They also encapsulate our risk appetite for policyholder security and conduct, earnings volatility, liquidity and our control environment. The following Risk Appetite statements are adopted by the Group:

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

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

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

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

Conduct – The Group has no appetite for deliberate or negligent actions leading to unfair customer outcomes, poor market conduct or reputational damage. Where unfair outcomes arise, the Group has a low appetite for delays in rectification.

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
- Operational Risk

RISK POLICIES

The Group Risk Policy Framework comprises a set of policies that supports the delivery of the Group's strategy by establishing operating principles and expectations for managing the key risks to the Group. The policies contain the minimum control standards to which each business unit must adhere.

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 standards required in order to manage the risk to an acceptable level; and
- the frequency of controls in operation.

The Group Risk Policies are mapped to risks across the Risk Universe to ensure complete coverage of all material risks.

As part of the Risk Policy harmonisation process between legacy-Phoenix and legacy-Standard Life Assurance businesses in 2019, a Group Conduct Risk Framework has been developed. This provides a consistent and comprehensive approach to the management of conduct risk and risks to the achievement of customer outcomes across the Group. The Conduct Risk Framework overarches all risk policies to provide a holistic view of conduct risk.

GOVERNANCE AND ORGANISATION

Governance

The RMF sets out a three lines of defence model with clearly defined roles and responsibilities for all components. Risk accountability and ownership are embedded in Line 1. Overall responsibility for approving the RMF rests with the Board, with maintenance and review of the effective operation of the RMF delegated to the Group Board Risk Committee. This delegation also includes approval of the overall risk management strategy and the review and recommendation to the Board of the relevant risk policies, risk appetite statements, risk profile and any relevant emerging risks.

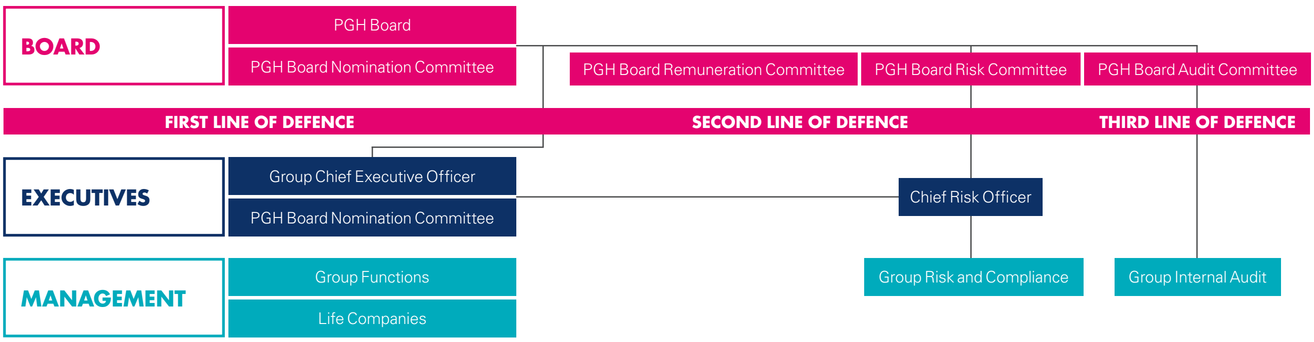
First line: Management

Management of risk is delegated from the Board to the Group Chief Executive Officer, Executive Committee members and through to business managers. Line 1 is responsible for implementation of the RMF, ensuring that risks to the Group and its customers are identified, assessed, controlled, monitored, managed and reported.

Second line: Risk Oversight

Risk oversight is provided by the Group Risk Function compromising risk and compliance functions and the Board Risk Committee. Group Risk provides a Risk Management Toolkit to support Line 1 in their management of risks. The purpose and responsibilities of the Group Risk function are set out in its annual Risk Function Mission & Mandate.

Governance Framework



Third line: Independent Assurance
Independent verification of the adequacy and effectiveness of the internal controls and risk management is produced by the Board Audit Committee, supported by the Group Internal Audit function.

The governance framework in operation throughout the Group can be found in the chart on page 50.

EMERGING RISK

The Group defines an emerging risk (or opportunity) as an event that is perceived to be potentially significant but is not yet fully understood. Mitigating action may not be necessary until further information is known about the possible impact.

The distinction between a risk and an emerging risk predominantly relates to the time horizon, with emerging risks generally being medium to longer term in nature. In many cases the potential impact for the Group is not yet clear and may change over time.

The Group captures emerging risks, and emerging opportunities, in a dashboard covering potential likelihoods, timeframes and impacts.

Senior management and the Board regularly review and challenge the validity of the dashboard and also discuss items which should be added. These conversations help drive out potential new risks and opportunities, pulling on the collective expertise and experiences of senior individuals.

Examples of emerging risks the Group considers are outlined in the table on page 56.

STRATEGIC RISK MANAGEMENT

Strategic risks threaten the achievement of the Group strategy through poor strategic decision-making, implementation or response to changing circumstances. The Group recognises that core strategic activity brings with it exposure to strategic risk.

The identification and assessment of strategic risks is an integrated part of the RMF; strategic risk is a Level 1 Risk Category in the Group's Risk Universe.

A strategic risk policy is also maintained and reported against regularly, with a particular focus on risk management, stakeholder management, corporate activity and overall reporting against the Life Companies' and Group's strategic ambitions.

RISK AND CAPITAL MODELS

A continuous process is followed for the identification and assessment of risks and the corresponding resilience of the Group's capital position. The Group continually strives to enhance its internal risk and capital models to ensure appropriate management of risks.

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

Our Stress and Scenario Testing Programme uses the Internal Model to assess the capital impact of a range of plausible and extreme stresses.

RISK CONTROL PROCESSES AND REPORTING

Identification, assessment, management and reporting of risks is undertaken across the three lines of defence, and reported through business and management governance to the relevant Boards and Committees.

RISK MANAGEMENT EFFECTIVENESS

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.

> "Our risk culture promotes an environment that supports informed decision-making and controlled risk taking."
>
> **Jonathan Pears**
> **Group Chief Risk Officer**

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

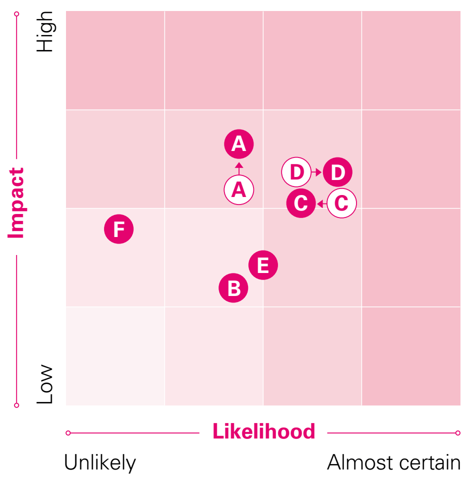
The Group's principal risks and uncertainties are detailed in this section, together with their potential impact, mitigating actions in place, links to the Group's strategic priorities and changes in the risk from the Group's 2018 Annual Report and Accounts, published in March 2019.

Following a review of principal risks, the number of principal risks has increased from ten to eleven with 'Climate Change and wider Environmental, Social and Governance (ESG) risk' moving from an emerging risk to a principal risk. This is due to the increasing understanding of the potential risks associated with the transition to a low carbon economy and longer-term financial risks. Potential impacts for the Group are wide ranging including material changes in asset valuations, reduced proposition attractiveness and reputational risk if the Group does not respond appropriately.

The current assessment of the residual risk in respect of each of the Group's Level 1 Risk Universe categories is illustrated in the chart opposite. The residual risk is the remaining risk after controls and mitigating actions have been taken into account.

Further details of the Group's exposure to financial and insurance risks and how these are managed are provided in note E6 and F4 (to the IFRS consolidated financial statements).

Principal risks



- A Strategic Risk
- B Customer Risk
- C Operational Risk
- D Market Risk
- E Insurance Risk
- F Credit Risk
- Change from last year

KEY

Change in risk

- Risk Improved
- No Change
- Risk Heightened
- N New Principal Risk

Strategic priorities

1. Improve Customer Outcomes
2. Drive Value
3. Manage Capital
4. Engage Colleagues

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Strategic risk				
The Group fails to make further value adding acquisitions or effectively transition acquired businesses	The Group is exposed to the risk of failing to drive value through inorganic growth opportunities. This includes acquisitions of life and pensions books of business and further investment in the Bulk Purchase Annuity ('BPA') market. The transition of acquired businesses into the Group could introduce structural or operational challenges that result in Phoenix failing to deliver the expected outcomes for customers or value for shareholders.	The Group applies a clear set of criteria to assess inorganic opportunities. Our acquisition strategy is supported by the Group's financial strength and flexibility, its strong regulatory relationships and its track record of managing customer outcomes and generating value. The financial and operational risks of target businesses are assessed in the acquisition phase and potential mitigants are identified. Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations. Our Corporate Development team continues to assess new Merger & Acquisition and BPA opportunities. The Group continues to actively manage operational capacity required to deliver its strategy; this includes transition activity. A Life Company operational capacity dashboard is regularly reviewed by both Life and Group Boards.	1 2 3	No Change Execution of the Standard Life Assurance Limited transition into the Group is progressing well and remains on track to deliver our synergy targets. In December, Phoenix announced its acquisition of ReAssure Group plc; this brings additional scale to Phoenix's Heritage business and enhances our key attributes of cash generation, resilience and growth. This transaction meets all of our acquisition criteria: it is value accretive; it supports our dividend; and it is consistent with maintenance of our investment grade rating. On completion, the acquisition would be expected to heighten existing risks that the Group is exposed to, in particular this principal risk.
The Group's Strategic Partnerships fail to deliver the expected benefits	Our Strategic Partnerships are a core enabler for delivery of the Group's strategy; they allow us to meet the needs of our customers and clients, and deliver value for our shareholders. Phoenix's end state operating model will leverage the strengths of our strategic partners whilst retaining in-house key skills which differentiate us. There is a risk that the Group's strategic partnerships do not deliver the expected benefits. The Strategic Partnership with Standard Life Aberdeen plc ('SLA plc') is expected to provide additional growth opportunities through our Open business. In addition, SLA plc provides investment-management services to around two thirds of our assets under administration. Our recently enlarged partnership with TCS is also expected to support growth plans for our Workplace Open business, enabling further digital and technology capabilities to be developed to support enhanced customer outcomes.	The Joint Operating Forum ('JOF') between SLA plc and Phoenix continues to develop the partnership with SLA plc in existing areas, and to identify areas for future growth and partnership, for the benefit of customers and shareholders of each Group. The JOF also oversees the operation of the Client Service and Proposition Agreement ('CSPA'), ensuring that each of the parties to the CSPA is performing against their CSPA obligations. The Transitional Services Agreement ('TSA') Oversight Committee between SLA plc and Phoenix oversees TSA performance and activity to exit the TSAs in future. The Group's engagement with Diligenta, and its parent TCS, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of our enlarged partnership.	1 2	Risk Heightened The Group is currently engaged in ongoing discussions with members of the Standard Life Aberdeen group in respect of disagreements over the operation of certain aspects of the share purchase agreement with SLA plc relating to services and expenses, and the scope and cost of services provided pursuant to the TSA, the CSPA and certain other agreements between the Group and members of the Standard Life Aberdeen group. The Group and SLA plc are currently seeking a commercial resolution to this. While the Group's pre-existing, functional relationship with Diligenta and its parent TCS remains strong and both parties have significant experience working together, the heightened risk reflects the increased dependency that we now place on our partnerships, particularly TCS, to enable successful delivery of the Group's strategy.
The Group fails to ensure that its propositions continue to meet the evolving needs of customers and clients	The Group's ability to deliver growth assumed in business plans could be adversely impacted if our propositions fail to meet the needs of customers and clients. The risk could materialise through increased outflows or reduced new business levels.	Our propositions are designed and developed with our customers and clients at the heart. We actively review and invest in our propositions to ensure they remain competitive and meet expectations. We also regularly seek customer feedback on our propositions, using this to inform future developments.	1 2	No Change The Group continues to progress propositional enhancements, in particular across our Workplace business. In October 2019 we launched a new passive investment solution for our Workplace business. We continue to invest in our digital propositions in line with their importance in delivering our strategy; most recently through the announcement of an enhanced strategic partnership with TCS to increase the Group's digital and technology capabilities. This aims to build on the strong innovation and customer service excellence to which we are committed.

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Strategic risk				
The Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks	The Group is exposed to market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition there are long-term market, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). The Group is also exposed to the risk of failing to respond to wider ESG risks; for example failing to meet our corporate and social responsibility commitments. This can result in reputational damage and lead to a reduction in earnings or value.	In March 2020, the Group became a signatory to the Task Force on Climate-related Financial Disclosures ('TCFD'). The disclosure included on page 58 outlines the Group's progress to date in incorporating climate-related risks and opportunities within our governance, strategy, risk management and metrics and targets frameworks.	1 2 3	N New Principal Risk
Customer risk				
The Group fails to deliver fair outcomes for its customers	The Group 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 Conduct Risk Appetite sets the boundaries within which the Group expects customer outcomes to be managed. This consists of a set of principles and standards for all Group colleagues to follow to meet the changing needs of our customers and our business. The Group Conduct Risk Framework, which overarches our Risk Universe and all risk policies, is designed to detect where our customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions. The Group also has a suite of customer policies which set out key customer risks and minimum control standards in place to mitigate them. We maintain a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes.	1	= No Change As part of RMF harmonisation, an enhanced Conduct Risk Framework is being rolled out across the Group. The Conduct Risk Framework provides a mechanism for enhanced oversight of customer outcomes across the Group. Our remediation programme for customers affected by the outcome of the FCA's industry-wide annuity review is now substantially complete. Over the year, two external asset managers (Woodford and M&G) suspended funds that some of the Group's customers invest in through our products. The Group has a small exposure to these funds in terms of both assets and customer numbers. As part of the suspensions we have followed our standard fund deferral process.
Operational risk				
The Group is impacted by significant changes in the regulatory, legislative or political environment	Changes in regulation could increase the Group's costs, impact profitability or reduce demand for our propositions. 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 actively engages with regulators and governments in order to understand potential changes in the regulatory and legislative landscape. The Group assesses the risks and benefits of regulatory and legislative changes to our customers and to the Group and actively engages with regulators and governments as 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.	1 3	Risk Improved There remains uncertainty around the final outcome of Brexit; however, the 'Improved' rating was noted in our Interim Report and reflects actions the Group implemented in March 2019, through a Part VII transfer, to protect the interests of our non-UK European customers in the event of a 'No Deal' Brexit. The Group is well prepared for operational impacts as a result of potential Brexit outcomes and political changes. While the industry is susceptible to new regulatory deliverables, the Group continually reviews the PRA and FCA 2019/2020 business plan and there are currently no large, unexpected changes that the Group has to manage.

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Operational risk				
The Group or its outsourcers are not sufficiently operationally resilient	The Group is 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. The Group now relies on a wide range of IT systems, including those we provide to SLA plc through the terms of the Standard Life Assurance businesses acquisition. In addition, the Group is increasing its use of online functionality to meet customer preferences. This exposes us to the risk of failure of key systems and cyber-attacks. Regulators' expectations of the speed and effectiveness of firms' responses to business resilience incidents are increasing.	The Group has a business continuity management framework that is subject to annual refresh and regular testing. Following the FCA and PRA December 2019 update on Operational Resilience, the Group is working to ensure that we will be inside disruption tolerances within three years of the publication of final guidelines. The Group operates an oversight framework to ensure that our outsource partners and critical suppliers adhere to the same business continuity principles. The Group continues to utilise cyber security tools and capabilities in order to mitigate Information Security and Cyber risk. Our specialist Line 2 Information Security & Cyber Risk Assurance team also provides independent oversight and challenge of Line 1 IT and information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions.	1 2 3	No Change Outsourcer service delivery levels remain good against a backdrop of heightened change activity across the Group. Our Reverse Stress Testing and Recovery Planning Processes demonstrate the Group is resilient to specific Board-approved scenarios. Whilst cyber-attacks show no sign of decreasing in volume and sophistication, the Group continues to adapt its approach in order to keep up to date with the latest threats.
The Group fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy	Delivery of the Group's strategy is dependent on a talented and engaged workforce. Periods of uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract individuals with the appropriate skills to help deliver our strategy. This risk is inherent in our business model given the nature of our acquisition activity. Potential areas of uncertainty include the transition of the Standard Life Assurance business into the Group; the recently expanded strategic partnership with TCS; and the acquisition of ReAssure Group plc.	Timely communications to our people aim to provide clarity around corporate activities. Communications include details of key milestones to deliver against our plans. We regularly benchmark terms and conditions against the market. We maintain and review succession plans for key individuals. The Group continues to actively manage operational capacity required to deliver our strategy. This is particularly pertinent across the Life Companies given the increasing demands on our workforce in this part of the business. A Life Company operational capacity dashboard is regularly reviewed by both Life and Group Boards.	1 2 3 4	No Change Organisational changes from across the Group as a result of the Standard Life Assurance Limited transition continue to progress as planned. Activity is underway to monitor colleague engagement and protect customer service and IT operations following the announcement of the extended partnership with TCS.
Market risk				
Adverse market movements can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment	The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers. There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector-specific sentiment and financial risks of climate change including risks from the transition to a low carbon economy.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. The Group continues to implement 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 given the low interest rate environment, and potential for adverse market impacts arising from prospective Brexit outcomes.	1 2 3	Risk Heightened The UK general election result in December 2019 has provided greater political certainty; the potential for adverse market risk remains due to ongoing uncertainty regarding Brexit, geopolitical tensions and the impacts of COVID-19. Markets have recently stabilised; whilst yields have recovered, they remain at low levels. We continue to take management actions to provide resilience against unanticipated market movements. Our business planning process stresses our balance sheet to ensure it remains resilient to market movements; contingency actions are available to help us manage markets risks, e.g. as a result of Brexit or global economic downturn. Our exposure to residential property remains within appetite; however, as noted in our Interim Report this continues to increase in line with investment in Equity Release Mortgages.

Risk	Impact	Mitigation	Strategic priorities	Change from last year
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 the Group will need to pay their benefits for longer. The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements. The Group continues to 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 against appetite across the Open and Heritage businesses.	2 3	= No Change The Group secured over £1.1 billion of BPA liabilities in the year. Consistent with previous transactions, we continue to reinsure the vast majority of the longevity risk. Whilst the low yield environment and market volatility continue to impact longevity and persistency risk exposures, we are comfortable with current exposures when considered against our Board-approved risk appetites.
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 investment, reinsurance or banking counterparties. This could 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 exposures 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. For mitigation of risks associated with stocklending, additional protection is provided through indemnity insurance.	2 3	= No Change As part of BPA deals, the Group continues to increase investment in illiquid credit assets. This is in line with our strategic asset allocation plan and within our risk appetite. Investment counterparty exposures continue to be managed and monitored across the Group and remain within risk appetite.

EMERGING RISKS

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.

Examples of some emerging risks the Group currently considers are listed in the table opposite.

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 EIOPA review and evolution of the UK's regulatory regime following its exit from the EU.	Financial soundness
Retail Price Index (RPI) Reform	The potential financial impacts from anticipated reform of RPI towards a variant of the Consumer Price Index (CPI).	Financial soundness/ Operational
COVID-19	COVID-19 may have operational, financial and demographic impacts for the Group.	Market/Operational/ Insurance

For more information on the Group's emerging risk process, see page 51.

VIABILITY **STATEMENT**

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Board has completed an assessment of the prospects and viability of the Group over a five-year period to December 2024.

ASSESSMENT PROCESS & KEY ASSUMPTIONS

The Group's prospects are assessed primarily through its strategic and financial planning process. This strategy is outlined within the Strategic Report of the Annual Report and Accounts. The Board fully participates in the annual strategic planning process by means of a Board meeting to review and approve the Annual Operating Plan ('AOP').

The output of the AOP is a set of Group objectives, detailed financial forecasts, and risks and contingent actions to be considered when agreeing the plan. The latest AOP was approved by the Board in November 2019. This considered the Group's current position and its prospects over a medium term horizon, reflecting the Group's stated strategy.

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

The Board has determined that the five-year period to December 2024 is an appropriate period for the assessment, being the period over which the Directors set internal and external targets, and the period covered by the Group's Board-approved AOP.

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

- no change in stated dividend policy until completion of the acquisition of ReAssure Group;
- that corporate acquisitions are not relevant, as any acquisition would only be progressed on the basis it meets the Group's stated criteria; and
- the stresses calculated occur on 1 January 2020 with no allowance for any recovery or contingent actions available, but do take into account the impact of any appropriate Solvency II transitionals recalculation.

ASSESSMENT OF VIABILITY

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

- It considered Group prospects, taking into account current position and the principal risks and uncertainties that it is facing as outlined above;
- It defined that viability is maintaining the capability to satisfy mandatory liabilities and meet external targets;
- It reviewed the AOP which considers profits, liquidity, solvency and strategic objectives and the impacts of management actions on the Group. The AOP was finalised in November 2019 and reaffirmed the Group's strategy;
- It completed stress testing to assess viability under severe but plausible scenarios, including two adverse stresses, with no recovery or contingent actions, which are deemed to be representative of the key financial risks to the Group as follows:
    1. Market stress – a combined market stress broadly equivalent to a 1-in-10-year event, calibrated to the Phoenix internal model, incorporating a fall in equity, property values and yields, with a widening of credit spreads.
    2. Longevity stress – longevity and yield stress broadly equivalent to a 1-in-10-year event, which implies a 1.2 year increase in life expectancy for a 65 year old male and 1.0 year increase for a 65 year old female, alongside a fall in yields.
- It completed reverse stress testing for the Group to understand how severe the above scenarios would need to be given the Group's current and expected levels of solvency and liquidity;
- It considered the principal medium to long-term risks facing the Group which have the potential to impact on viability as discussed in the Risk Management section;
- It completed a qualitative assessment of all strategic risks to the Group and contingent actions available that could be implemented should any risk materialise that threatens the Group's resilience; and
- It reviewed the financials, synergies and risks associated with the acquisition of ReAssure Group, taking into account the current position and under a combined market and longevity stress.

The results of the stress testing, including a combination of individual scenarios, as disclosed in the Business Review Section, demonstrated that due to the significant excess capital in the Life Companies, the Group's high cash generation and access to additional funding, the Group is able to withstand the impact in each case with regards to meeting all mandatory liabilities as they fall due, and continue to track towards meeting external targets assuming a partial recovery from the stress

STATEMENT OF VIABILITY

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

REPORTING **STATEMENTS**

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES ('TCFD')

In March 2020, the Group became a signatory to the Task Force on Climate-related Financial Disclosures ('TCFD'). The disclosure included below outlines the Group's progress to date in incorporating climate-related risks and opportunities within our governance, strategy, risk management and metrics and targets frameworks.

It is expected that these disclosures will continue to evolve as the Group moves towards full alignment by 2022 in line with the recommendation of the UK Government's Green Finance Strategy.

Governance

The Phoenix Group Holdings plc Board is committed to high standards of corporate governance and the Group's corporate governance policy is aligned to compliance with the UK Corporate Governance Code which sets standards of good practice for UK listed companies. Details of the Group's compliance with the Code can be found in the Corporate Governance section of this report from page 73 onwards.

Management responsibilities

Overall responsibility for climate-related issues is held by the Group's Chief Executive Officer, Clive Bannister, as part of his ownership of Phoenix's sustainability strategy.

The responsibility for ensuring the appropriate identification, assessment, management and reporting of climate-related financial risks that could impact the Group sits with the Group Finance Director, James McConville.

The Group's overall risk management framework (which includes climate-related financial risks) is the responsibility of the Group's Chief Risk Officer, Jonathan Pears. This forms part of his role in ensuring that the Group's Risk Management Framework appropriately supports the identification, assessment, management and reporting of financial risks that could impact the Group.

Further details are included in the Risk Management section below.

Sustainability Committee

In 2019, the Group established a Sustainability Committee, which comprises key functional representatives from across the business and is led by a newly appointed Head of Sustainability. This committee meets at least every two weeks and is responsible for the oversight, delivery, management and reporting of the overall sustainability strategy and its underlying environmental commitment including initiatives which are climate-related.

As our response to the TCFD guidelines evolves, we will be reviewing our internal governance structures and position to ensure risks are managed and opportunities are seized.

Strategy

The Group is currently developing its new sustainability strategic framework, led by its sustainability vision 'Committing to a Sustainable Future' and underpinned by four key commitments: deliver for our customers, foster responsible investment, reduce our environmental impact and be a good corporate citizen.

The 'reduce our environmental impact' commitment and the underlying ambitions being developed within, will consider the following climate-related risks of most material impact to our business:

Material climate-related risks

- Transition Risks – we believe that the primary impact for our business will be the transition to a low carbon economy.
- Physical Risks – we are exposed to the long-term market, insurance and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions).
- Liability Risks – related to both transition and physical risks. There are also legal risks associated with the actions we take or fail to take now (such as failing to mitigate the financial risks of climate change for our customers) and how these are viewed in the future.

Group Responsible Investment Philosophy

The Group has developed a Group Responsible Investment Philosophy. This is seen as the first step towards embedding ESG considerations within the Investment Management process and serves as a framework that sets out a high level commitment and focus to both internal and external stakeholders.

Risk Management

The Group has made a number of enhancements to its Risk Management Framework ('RMF') to support the identification, assessment, management, monitoring and reporting of financial risks from climate change.

Risk Universe:

Climate-related risks can manifest across the level 1 categories and the primary focus is to ensure that these (and sustainability risks more generally), are considered in all aspects of our strategy. Where there are material climate-related risks under management in other risk categories, these are highlighted through the relevant risk reporting.

Risk Policies:

The existing set of Group Risk Policies is being enhanced through the addition of a Group Sustainability Risk Policy which incorporates all material ESG risks for Phoenix, including climate change.

Consideration is being given in the 2020 refreshes to ensure that climate change risks are appropriately covered in all policies where material.

Risk Appetite:

The Group is ensuring that its risk appetite statements appropriately reflect its appetite for climate change risks, and sustainability risks more broadly developed as part of its vision.

Scenario Testing:

The Group participated in the PRA's 2019 insurance stress test exercise and is supplementing this with additional quantitative analysis to consider the impacts across our risk universe.

Later in 2020, the Group expects to participate in the Bank of England's Biennial Exploratory Scenario exercise.

Metrics and Targets

As part of Phoenix's overall sustainability strategy and implementation plan, we are currently developing our approach to reporting targets and metrics for each of the Group's sustainability commitments. This will include specific climate-related targets within our 'reduce our environmental impact' commitment. Further details are provided within the Group's 2019 Sustainability Report.

SECTION 172 STATEMENT

The Directors are mindful of their duty to promote the success of the Company. They believe they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. The table opposite shows where more information can be found on the matters referred to in the Companies Act Section 172 (1).

Reporting requirement	Page
CULTURE, VALUES AND THEIR LINK TO COMPANIES ACT SECTION 172	81
STAKEHOLDER ENGAGEMENT AND HOW THE BOARD HAS DISCHARGED ITS SECTION 172 DUTIES	82 to 83
BRINGING THE EMPLOYEE VOICE TO THE BOARDROOM	84 to 87

NON-FINANCIAL INFORMATION STATEMENT

Phoenix welcomes the increased focus from all stakeholders on its non-financial performance. As required by the Companies Act 2016 sections 414CA and 414CB, the table below outlines where key content requirements of the non-financial statement can be found within this Report.

Reporting requirement	Phoenix policies which govern our approach	Section within Annual Report	Page
ENVIRONMENTAL MATTERS	• Code of Business Ethics • Corporate Responsibility Group Policy	• Our Environment – stakeholder engagement	68
EMPLOYEES	• Code of Business Ethics • HR Group Policy	• Engage colleagues • Our Colleagues – stakeholder engagement	36 64
SOCIAL AND COMMUNITY MATTERS	• Code of Business Ethics • Corporate Responsibility Group Policy	• Our Community – stakeholder engagement • Our Customers – stakeholder engagement • Improve customer outcomes	66 62 30
HUMAN RIGHTS	• Code of Business Ethics • Sourcing and Procurement Group Policy • Modern Slavery statement • Health and Safety Group Policy	• Our Suppliers – stakeholder engagement • Our Colleagues – stakeholder engagement	63 64
ANTI-BRIBERY AND CORRUPTION	• Code of Business Ethics • Financial Crime and Anti-Bribery Group Policy • Whistleblowing Group Policy • Financial Control and Reporting Group Policy • Share Trading Group Policy	• Our Colleagues – stakeholder engagement	64
BUSINESS MODEL		• Our Business model • Cash generation process • Our strategy and KPIs	26 to 27 28 to 29 30 to 37
PRINCIPAL RISKS AND UNCERTAINTIES		• Principal risks and uncertainties	52 to 56
NON-FINANCIAL KEY PERFORMANCE INDICATORS		• Inside Front Cover • Our strategy and KPIs	IFC 30

IMPROVING STAKEHOLDER OUTCOMES

The Group's mission is to improve outcomes for customers, whilst delivering value for shareholders. However we have responsibilities and engage with a much wider group of stakeholders and positive engagement and outcomes for these stakeholders is key to the Group's long-term success.

All of our interactions are governed by the Group's Code of Business Ethics and Ethical Conduct which sets out how we can maintain a high standard of integrity across all engagement.

Read how we are integrating responsible Environmental, Social and Governance ('ESG') business practices into our everyday operations: www.thephoenixgroup.com/sustainability2019

Key Stakeholders	How we engage
CUSTOMERS 10 million policies with £248 billion of assets under administration. Key products and services include with-profit, unit-linked, annuities, protection and workplace pensions. **Page 62**	• Through a variety of channels, utilising phone, e-mail, digital platforms, surveys, written communications as well as individual research projects and direct interaction.
SUPPLIERS The Group has c.1,000 suppliers of which c.19 are considered strategic or critical to the business. **Page 63**	• The Group has contract and relationship management teams which, using our Governance Framework, defines the engagement with our strategic and critical suppliers to build and develop mutually beneficial partnerships.
COLLEAGUES Over 4,400 colleagues based across Europe supporting Phoenix Group, Phoenix Life, Standard Life Assurance and SunLife. In operational sites: Wythall, London, Basingstoke, Bristol, Edinburgh, Glasgow, Dublin and Frankfurt. **Page 64**	• By using surveys, site-specific colleague presentations, intranet content, trade union representation, inclusion networks, works councils, feedback channels, networking, events and a range of continual professional development opportunities.
COMMUNITY A range of community partners including charities, schools, hospices and local community groups benefit from the Group's support across the year. **Page 66**	• Through dedicated face-to-face quarterly meetings with 'charity partners' and partnership schools, and on a less regular basis with other community partners. Surveys and feedback is routinely captured.
ENVIRONMENT The Group is committed to managing and reducing its environmental impact and considers the ongoing effects of climate change on its operations. **Page 68**	• By working with a range of brokers to actively monitor the energy market and help procure in line with risk appetite, exploring green technology whenever possible. The Group benefits from a range of in-house specialists and external expertise to help manage the Group's carbon reduction programme. Colleagues regularly support a range of environmental-based community groups to volunteer their time to help protect the wider environment.
INVESTORS The Group maintains an active dialogue with its investors throughout the year. **Page 71**	• We have a comprehensive communications and engagement programme, which includes investor roadshows in several geographies, conferences, Capital Markets Days and sales team presentations.
GOVERNMENT, TRADE BODIES AND REGULATORS Actively contributing to policy developments impacting long-term savings. Collaboration with a range of trade associations relevant to sector. Ongoing regulatory engagement. **Page 72**	• Through meetings, research and attendance at industry groups and relationship managers.

OUR CUSTOMERS

The Group recognises the responsibility it has to all of its customers.

IMPROVED COMMUNICATIONS AND CONNECTIONS

The Group's Customer Treatment Risk policy covers risks arising from the design or management of products, or from the failure to meet or exceed reasonable customer expectations, taking account of regulatory requirements. Customer treatment risks are aligned to the areas of focus in Phoenix Group's Customer strategy.

One aspect of the Group's Customer strategy involves improving communications so that customers understand what they can do with their policy or plan and go on to make an informed decision should they wish to take any action.

During 2019, key communication initiatives included signposting services and organisations to help customers take a proactive role in managing their financial affairs.

A number of activities were focused on enhancing customer experience, for example vulnerable customer support and retirement event invites.

Read more about key customer engagement activities undertaken during the year on page 30.

LISTENING TO CUSTOMERS

Feedback from customers is obtained through automated surveys, individual research projects and most recently through talking with the wider 'customer community' about their experiences and how they like to engage with the Group.

CUSTOMERS IN VULNERABLE CIRCUMSTANCES

Phoenix has a vulnerable customer strategy which aims to address vulnerability to the extent that the right outcomes for customers are achieved regardless of whether they are living in vulnerable circumstances.

A number of initiatives were progressed during the year including providing opportunities to support people living with dementia, the launch of a unique initiative in conjunction with Living Streets charity to help tackle social isolation amongst the over 65s, through the delivery of regular community walks and work with Money Advice Trust, a charitable trust providing free debt advice.

The Group continues to engage with regulatory authorities and industry working groups on pension scams and looks at ways to better protect customers from becoming victims through raised awareness.

PUTTING THINGS RIGHT FOR OUR CUSTOMERS

Complaint activity including those referred to the Financial Ombudsman Service or the Pensions Ombudsman Service is monitored and a significant proportion of complaints are resolved across the Group, in less than three days. This is a key performance indicator for the complaints team and results in a better experience for customers.

DIGITALISATION

In 2019 the digital proposition continued to evolve across the Group, with further investment in online capabilities and connecting digitally with customers to increase engagement. This has enabled website access 24/7, whilst also reducing the volume of paperwork issued.

Customers wishing to consolidate their pension pots using the online guidance journey have also continued to increase. Technology has also been implemented to capture customer feedback in real-time.

DATA PRIVACY AND CYBER SECURITY

Phoenix Group has an appointed Data Protection Officer to monitor compliance with the GDPR and DPA 2018, providing advice on Phoenix Group's data privacy obligations and acting as the point of contact for data subjects and regulatory authorities.

The Phoenix Group Data Protection Officer owns the Group Privacy policy and Data Protection Risk policy and maintains oversight of ongoing privacy compliance. This is done through policy assurance testing, privacy reviews and ongoing training.

Phoenix has continued to strengthen and improve its security position around customer data through the deployment of market leading tools, controls and policy harmonisation.

Security controls to protect the Company from cyber-related incidents have also been deployed and a dedicated security operations team is in place to effectively respond to emerging cyber threats. The Group has had no significant cyber-related incidents over the year.

OUR SUPPLIERS

We rely on our service providers and partners to support the delivery of our strategic objectives.

SUPPLY CHAIN MANAGEMENT

Sourcing and procurement at Phoenix goes beyond the initial evaluation and selection processes and includes implementing and managing a good working relationship with all suppliers.

The Group's Sourcing and Procurement policy sets the minimum operating standards relating to the management of sourcing and procurement risk throughout the Group and forms part of the sourcing and procurement control framework. The framework provides support through the sourcing lifecycle at all stages including supplier evaluation, risk-based due diligence and contract management.

The Commercial Partnerships team manages a decentralised procurement model for low value/low volume spend, enabling the business to operate flexibly but within the controls of the Sourcing and Procurement policy. This has a robust oversight and governance model.

The Group has c.1,000 suppliers of which c.19 are considered strategic or critical to business[1].

For strategic or critical providers, Phoenix has a dedicated professional relationship manager assigned. Their role is to govern the relationship, measure and monitor performance and work to continually improve outcomes for all stakeholders.

In 2019 a single procurement function was implemented to operate across the enlarged business under a harmonised Sourcing and Procurement policy and framework. All Standard Life Assurance Limited suppliers are being segmented and will now operate within the Phoenix Supplier Management Model. This model is well established and allows experts from the business to engage with experts from their suppliers to manage their subject matter area, with support from relationship managers ensuring that services are overseen and delivered effectively.

PROMPT PAYMENT CODE

The Group voluntarily signed the Government's Prompt Payment Code in 2012 and from January 2018 has been submitting relevant statements under the Small Business, Enterprise and Employment Act 2015 for the duty to report payment practices. The Group is committed to supporting the culture of prompt payment in the business community.

MODERN SLAVERY

Phoenix Group takes active steps to ensure its supply chain is not engaging in any form of modern slavery or human trafficking. In February 2019 a statement was published on the Group website pursuant to Section 54, Part 6 of the Modern Slavery and Human Trafficking Act 2015. The statement details the policies Phoenix has in place and the ongoing actions that will be taken to continue to support the combating of modern slavery and human trafficking in supply chains.

As a part of the Group's Sourcing and Procurement policy, Phoenix will identify any supplier that supports the delivery of core services and will review their adherence to the Modern Slavery Act on an annual basis. To date there have been no issues raised with reviews conducted.

1 A Strategic Relationship is financially important to the Group and provides a critical service. A disruption in supply would create significant issues for Phoenix. A Critical Supplier is where the provision of goods or services is limited to few suppliers and that the goods or services provided would significantly damage Phoenix should these services fail.

The Group's Modern Slavery and Human Trafficking Statement is available at www.thephoenixgroup.com/mss

OUR COLLEAGUES

We are an employer of choice offering rewarding careers and opportunities, promoting physical, financial and mental wellbeing in the workplace and empowering a wholly inclusive workforce.

The Group's Human Resources ('HR') policy defines people risk, which, if unmanaged, could result in a reduction in earnings or value, through financial or reputational loss.

The minimum control standards in place enable effective management around the attraction, recruitment, development and engagement of colleagues, whilst ensuring compliance with any legislation and external regulatory requirements.

Adherence to this policy is managed by the Group's HR department via quarterly assessment of the minimum control standards. There were no material issues raised during the year.

The Group has been recognised for the eighth consecutive year as being listed as one of the UK's Top Employers, and became a signatory to the Scottish Business Pledge in 2019, which portrays the Group's commitment to being a responsible employer.

DIVERSITY AND INCLUSION

The Group's Diversity and Inclusion strategy was refreshed during the year and commitment towards the published targets remains key. The targets are ambitious and sector leading, and now will reflect all entities within the Group. Progress on the Group's targets is available on page 36.

COLLEAGUE INSIGHT SURVEY

Building on the cultural survey from 2018, the Group introduced a new six-monthly insight survey to understand colleagues' experiences with regard to direction and change, leadership and the ability to speak up.

COLLEAGUE ADVISORY FORUM

In April, Group Board Member Karen Green was appointed as Director for Workforce Engagement, facilitating communication between colleagues and the Board. Read more on page 84.

INCLUSION NETWORKS

Various inclusion networks are in operation across the Group which are sponsored by members of the Executive Committee, portraying the importance placed on colleague collaboration and employee voice.

VALUES AND PERFORMANCE MANAGEMENT

The Company's new values form the foundation for a revised Group-wide approach to performance management and to measuring engagement and colleague insights. This single approach to performance management measures both 'what' and 'how' and differentiates individual contribution through a clear six-point rating scale.

Read more about our colleague engagement activities in the Group's Sustainability Report www.thephoenixgroup.com/sustainability2019

Read more about diversity and inclusion at www.thephoenixgroup.com/diversity

INSPIRING CONFIDENCE THROUGH LIVING OUR VALUES

Last year's cultural survey helped shape the new values for the Group.

Passion
We make a positive impact by caring about customers, colleagues and communities

Responsibility
We do the right thing by taking personal ownership

Growth
We succeed through learning, experimenting and adapting

Courage
We innovate by challenging ourselves and others to do better

Difference
We collaborate and find strength through respecting and embracing new perspectives

REWARD
The Group continues to attract, develop and retain talented individuals by offering a competitive range of benefits and development opportunities. The Group is in discussions with the Living Wage Foundation to understand in more detail the requirements to gain full accreditation as a Living Wage Employer. The Group has been paying at least the Real Living Wage to colleagues since 2014.

The Group also provides the opportunity for employees to participate in the Company's all-employee share schemes, which include Sharesave and the Share Incentive Plan, to encourage broader share ownership in the Company.

FINANCIAL CRIME PREVENTION
In order to ensure that any financial crime matters or occurrences are effectively managed, the Group has a number of policies and practices in operation. The Group's Anti-Bribery policy addresses bribery and corruption risks alongside the Financial Crime policy which addresses risks such as anti-money laundering and fraud. Both policies detail the minimum control standards and risks that are to be managed to mitigate any potential issues.

Adherence to the Anti-Bribery and Financial Crime policies is managed by the Financial Crime team via assessments of the minimum control standards that make up the policies, as well as themed Financial Crime Reviews and Assurance testing.

Colleagues are required to complete annual computer-based training around both financial crime prevention and adherence with the Code of Business Ethics and Ethical Conduct. Colleagues are also required to complete a Gifts and Hospitality Register which is overseen and managed by the Financial Crime team.

The Group has a zero tolerance towards bribery and corruption in all its forms and adheres to the 2010 Bribery Act. Service providers are advised of and engaged in the zero tolerance approach to bribery and corruption and are expected to comply with Phoenix's minimum control standards.

No instances or breaches were recorded during the year.

WHISTLEBLOWING
The Group operates a Whistleblowing policy, prompting colleagues to disclose information where they believe wrongdoing, malpractice or risk exists across any of Phoenix's operations. Colleagues are encouraged to speak up about matters that concern them, with the understanding that confidentiality will be maintained.

HUMAN RIGHTS
The Group is committed to ensuring that human rights are respected and processes are in place to remove any human rights issues both internally and externally via outsourced relationships.

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

All colleagues are required to comply with the policy and take appropriate measures to ensure harassment and bullying do not occur.

Adherence to the policy is managed by the Group's HR department via assessment of the minimum control standards. During the year the Group effectively resolved all employee disputes and as a result was involved in no employment tribunals.

HEALTH AND SAFETY
The Group operates a Health and Safety policy which helps manage risks and adverse effects.

The Group has reported four reportable accidents during 2019 which were reported to the Health and Safety Executive under the Reporting of Incidents, Disease and Dangerous Occurrence Regulations ('RIDDOR').

The Group aims to reduce this figure by 50% across 2020 through a proactive safety approach to communicate with colleagues and make them aware of workplace risks.

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

OUR COMMUNITY

We strive to improve educational opportunities and life chances for individuals within our local community. We contribute to our local communities – providing donations, skills, time and resources to the cause.

PHOENIX GROUP'S CHARITY PARTNERS OF THE YEAR

The Group continues to recognise the importance of corporate charity partnerships.

The Group's partnership with Midlands Air Ambulance Charity and London's Air Ambulance Charity is coming to the end of its six-year collaboration in March 2020. Across this partnership the air ambulances have benefited from in excess of £876,000 since 2014 (c. £97,000 for 2019). In addition, colleagues in Scotland have supported Scotland's Charity Air Ambulance donating over £105,000 in 2019. Colleagues in Basingstoke have supported Hampshire and Isle of Wight Air Ambulance, with a donation of £10,000.

The largest fundraiser of 2019 was the festive run in London which involved 46 teams of colleagues, air ambulance staff and suppliers. This event raised in excess of £24,000 after Company matching.

SunLife colleagues have supported Alive Activities Limited across the year, enriching the lives of older people in care and supporting training materials for carers. One fundraiser involved 57 colleagues participating in the SunLife Big Charity Challenge, walking the Brecon Beacons.

Further afield colleagues continued to support a local children's cancer foundation Hilfe für krebskranke Kinder e.V. Frankfurt in Germany, with a donation in excess of €20,000, and the Austrian Cancer Foundation in Vienna, Österreichische Krebshilfe Wien, with a donation of €6,000. Colleagues in Ireland commenced an 18 month partnership with ALONE, benefiting older members of the community. Donations for this cause totalled in excess of €71,000 across the year.

Read more about our community initiatives in the Group's Sustainability Report www.thephoenixgroup.com/sustainability2019

OTHER CHARITABLE DONATIONS

Outside of the formal charity partnerships colleagues may also apply for matched funding providing the cause meets the Group's charity criteria, and is not deemed political or religious. Across the year a range of causes were supported, including: City's Lord Mayor's Appeal, St Michael's Hospice in Basingstoke, Macmillan Cancer Support, Action for Children, Irish Cancer Society and Alzheimer Scotland.

Onsite fundraising across all sites benefited charities by in excess of £32,000 and individual offsite fundraising including an element of staff-matching by the Group benefited local charities by a further £200,000.

COMMUNITY WELLBEING

Following its successful pilot in 2018, the Group in conjunction with Living Streets charity re-launched Wythall Walking Friends. A unique colleague-led walking project, aimed at individuals aged over 65 living in the local community.

The Group's dementia champions continued to provide awareness sessions to colleagues in England, supporting Alzheimer's Society.

COMMUNITY INVESTMENT

The Group has worked closely with various community partners over the year, offering support in both financial and non-financial ways. Phoenix was premier sponsor of the 'Wythall and Hollywood Fun Run' which for this 10-year anniversary included a 10km, 5km and 1.5km run through the heart of Wythall's community and entered the site's grounds as part of the official distance.

The 5th Annual Jobs Fair in Bromsgrove, hosted by Rt Hon Sajid Javid MP, was co-sponsored by the Group, attracting over 90 local, national and international employers and promoting local job opportunities in the Midlands area.

In Ireland, support continued for Junior Achievement Ireland, a programme designed to give pupils an appreciation of the value of work and enterprise. Colleagues got involved with offering Science Foundation Ireland FutureWize Workshop events across Dublin. The workshops emphasised the importance of STEM and promoted a career planning module.

In the Edinburgh office, 15 young people are also engaged with the Career Ready programme, receiving regular mentoring sessions with colleagues.

VOLUNTEERING

Colleagues throughout the UK and Ireland regularly donate their time and skills to community causes.

London colleagues participated in City Giving Day 2019 in aid of Lord Mayor's Appeal, supporting the Chairman in his role of Alderman. The Group's CEO holds the position of Chairman at the Museum of London, providing pro-bono support.

Collectively Phoenix Group colleagues donated over 6,000 hours across the year, supporting a variety of beneficiaries ranging from schools, hospices, local parks, environmental-focused projects to groups supporting the vulnerable.

INSPIRING CONFIDENCE THROUGH OUR COMMUNITY PARTNERSHIPS

The Group's partnership with Midlands Air Ambulance Charity is all about providing mutually beneficial opportunities for our colleagues, the wider charity and those living within our local community.

This year colleagues were offered Cardiopulmonary Resuscitation ('CPR') training, equipping them with skills that could save a life. It is estimated that over 30,000 cardiac arrests take place outside of the hospital setting every year in the UK, but the survival rate is less than 1 in 10.

CPR sessions were held onsite across a three-month period, promoting the 'Restart a Heart Campaign'. The purpose was to raise awareness and impart valuable life-saving skills, which could help keep someone alive until medical attention arrives.

The Group was shortlisted at the Better Society Awards 2019 for the National Charity Partnership Award in conjunction with Midlands Air Ambulance Charity.

Emma Gray, Fundraising and Marketing Director for Midlands Air Ambulance Charity said:

"We are very proud to have offered this vital training to 150 staff at Phoenix Group as part of our long-standing partnership."

OUR ENVIRONMENT

We aim to minimise our impact on the environment.

Read more about our Environmental initiatives in the Group's Sustainability Report. www.thephoenixgroup.com/sustainability2019

WASTE MANAGEMENT AND CONSUMABLES

Operationally, the Group considers its internal practices and is focused on minimising waste and increasing recycling.

All core sites continue to divert 100% of their waste from landfill and new waste streams for compostable items and food waste have been introduced.

In 2019 at the Edinburgh and Wythall offices, various single-use plastic and non-recyclable items in use within the restaurant and coffee shop facilities were removed. The London office, which is shared tenancy, achieved an accolade for its achievements in waste management, waste minimisation and re-use in the form of the Clean City Awards Scheme.

ENERGY AND WATER SAVING

The energy contract for the Group's main UK offices is managed centrally and from January 2019 all electricity at these sites was provided from 100% renewable sources, which is backed up by Renewable Energy Guarantees of Origin ('REGO').

Other initiatives in 2019 have included upgrading lighting systems, making use of LED technology to make site operations less energy intensive and having electric vehicle charging stations retro-fitted at the Wythall and Edinburgh sites.

CONSERVATION

Colleagues have continued to support environmental-focused charities and community groups such as Warwickshire Wildlife Trust, National Trust, Bromsgrove District and Redditch Borough Councils, Canal & River Trust, Hampshire and Isle of Wight Wildlife Trust and the Heart of England Forest which is home to the Phoenix Way Wood. The SunLife operation continues its membership of the Woodland Trust.

INSPIRING CONFIDENCE THROUGH RESPONSIBLE INVESTING

In 2019, we continued to diversify our investment portfolio by completing another green deal. Over £43 million was funded in long-term debt to help finance an operational wind farm in south-west Scotland, providing a long-term reliable income stream from a clean energy investment.

GREENHOUSE GAS EMISSIONS AND ENERGY CONSUMPTION DISCLOSURE

This section includes an update on the Group's annual energy consumption and greenhouse gas emissions for the calendar year 2019 and the prior year, 2018. Emissions disclosed relate to facilities, activities and property investment portfolios where the Group has operational control.

The emissions reported are based on the main requirements of the ISO14064 Part 1 and the GHG Protocol Corporate Standard (revised edition). Data was gathered at site level to compile the carbon footprint. International Energy Agency and UK Government Conversion Factors for GHG Company Reporting have been used to convert activity data into carbon dioxide equivalent ('CO_2e') emissions.

The scope and depth of reporting has been expanded in recognition of the growing importance of tackling the climate emergency and in preparation for Streamlined Energy and Carbon Reporting ('SECR') which will apply to next year's disclosure.

For the first time, fugitive emissions (based on refrigerant top-ups) in Scope 1 and emissions from employee car travel for business purposes in Scope 3 have been disclosed.

Following the purchase in 2018 of much of the Standard Life business property investment portfolios as well as occupied premises in Ireland, Germany, Austria and the UK are included. Further, in property investment portfolios, where energy consumption is sub-metered to tenants, this also falls into Scope 3 reporting, whereas all other landlord-obtained consumption remains as Scope 1 or 2 emissions. Also included for the first time is a comparison of performance for occupied premises and appropriate investment properties against the BBP REEB benchmarks.

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

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

In 2019 absolute emissions (location-based Scope 1 and 2) have increased by 8% due to the inclusion of Standard Life premises for all of 2019 but only a third of 2018. This increase has outweighed the reduction in the emission factor for consumption of purchased electricity (Scope 2) and the reduced consumption of energy on a like-for-like basis. For the like-for-like set of occupied premises and investment portfolios, there has been a significant reduction of 15% in Scope 1 and 2 emissions.

91% of electricity consumption is from certified renewable sources – which explains why the market-based emissions for Scope 2 are significantly less than the location-based emissions.

GREENHOUSE GAS EMISSIONS[1]

Absolute GHG emissions in tonnes of CO_2e

Emissions, tonnes of CO_2e, from:	2019 market-based	2019 location-based	2018 location-based
Scope 1 – Combustion of fuels, business travel in company cars, and fugitive emissions of refrigerant gases	4,203	4,203	3,463
Scope 2 – Electricity purchased for landlord shared services and own use (purchase of heat, steam and cooling not applicable)	3,702	13,052	12,533
Scopes 1 and 2 – Mandatory carbon footprint disclosure	7,905	17,255	15,997
Scope 3 – Energy sub-metered to tenants, business travel in employees' cars, and transmissions and distribution losses from electricity	760	4,267	5,728
Scopes 1 and 2 and 3 – Voluntary 3 scopes carbon footprint	8,665	21,523	21,725

1 **Emissions factors** – IEA (for location-based Scope 2 and Scope 3 T&D losses), AIB (for market-based residual mix factors for non-renewable electricity), and DEFRA (fuels, refrigerants and car travel). There is a significant time-lag in the availability of IEA factors – the 2019 factors will not be published until late 2021. Therefore all 2019 consumption data are converted using the factors actually arising in 2015 (except car travel which uses DEFRA factors as published in 2019). Whilst imperfect, we can consistently and readily report emissions internally from the first day of a year (for monthly/quarterly reporting). Emissions are thus somewhat overstated rather than understated; though this encourages energy reduction and sourcing of renewable energy.
Refrigerants – Refrigerants data have only been collected, and shown, from 2019 (390 tonnes CO_2e).

Phoenix Group's chosen intensity measurement[2]

	2019 location-based	2018 location-based
Scope 1 and 2 Emissions from occupied premises per floor area intensity	62 kg CO_2e/m^2	73 kg CO_2e/m^2
Scope 1 and 2 Emissions from occupied premises per full-time equivalent employee (FTE) intensity	3.2 tonnes CO_2e/FTE	3.8 tonnes CO_2e/FTE

2 Our intensity measurement calculations currently only include our Wythall estate and leased floor of Juxon House.

Approximately 1.3% of 2019 building energy consumption has been estimated as full year data was not available for all sites.

In 2019 there was 67GWh of Group energy consumption (building energy and business travel in either employees' cars or company cars) – 97% of which was from UK operations. In greenhouse gas emissions terms (Scopes 1, 2 and 3), UK sites account for 96% of Group emissions.

The Group's chosen intensity metrics detail carbon emissions per floor area and per full-time equivalent employees ('FTE') in occupied premises. The intensity by both floor area and FTE has decreased from 2018 to 2019 – largely driven by 15% reduction at the Wythall site.

Several operational premises have been excluded from intensity metrics to avoid skewing the intensity results. These premises were either not owned for the whole two-year period that is used to compare intensity or the metering arrangement between landlord and tenant does not currently allow precise allocation of consumption between parties.

ENERGY BENCHMARKING COMPARISON

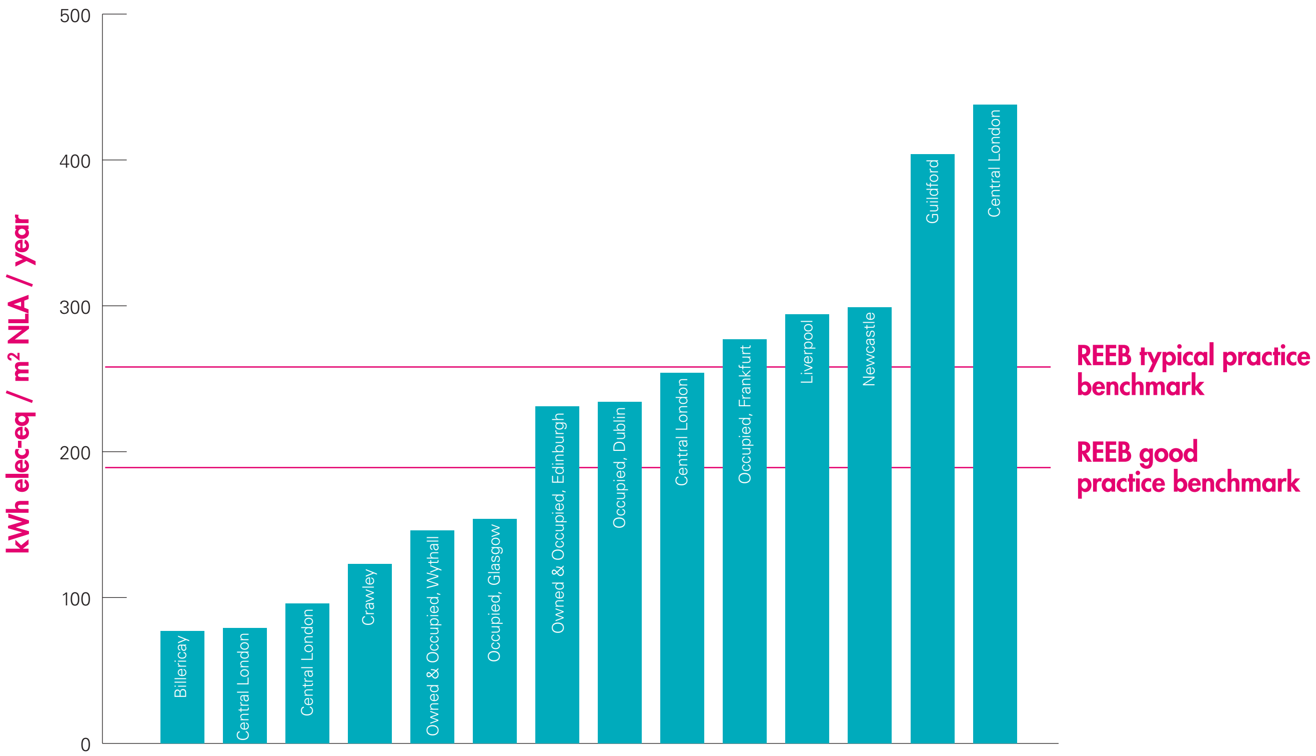
The chart below compares the 2019 energy intensity performance of some of the Group's occupied offices and appropriate investment property offices against the most recent BBP REEB benchmarks.

REDUCING OUR ENERGY CONSUMPTION AND EMISSIONS

The actions the Group is considering in order to reduce its carbon footprint are in line with the need to use energy efficiently, thus reducing consumption, and also drawing on decarbonised supplies of energy. These include:

- taking forward energy consumption reduction measures – in particular from recent ESOS audits;
- installing energy monitoring and sub-meters;
- enhancing building management controls;
- installing LED lighting; and
- installing variable speed drives on fans, motors and pumpsets.

Office energy intensity in 2019, occupied premises and investment properties



The chart shows that there is a significant range of performance, from better than 'good' to poorer than 'typical'.

OUR INVESTORS

Phoenix operates a comprehensive investor relations programme and values an active dialogue with the Group's financial audiences including institutional investors, private investors, rating agencies and research analysts.

INSTITUTIONAL EQUITY INVESTORS

Throughout the year members of the Executive Committee and the Investor Relations team held meetings with investors to provide updates on the Group's strategy and operations. This involved 17 shareholder roadshows and a total of 204 meetings with 310 existing and prospective equity investors across the UK, North America and France.

The Chairman and Non-Executive Directors are available for investor meetings to discuss various subjects. The Board also receives feedback on shareholder views through a biennial anonymous shareholder consultation and is kept regularly updated through the distribution of equity research notes, broker briefings and meeting summaries.

RESULTS PRESENTATIONS AND CAPITAL MARKETS DAYS

As part of its reporting cycle, the Group holds full year and interim results presentations which are webcast live on Phoenix's website. In addition, Phoenix held a Capital Markets Day on 28 November 2019 in London which was attended by 133 external attendees and provided detailed insights into the Group's operating model and strategy. The event also provided attendees with the opportunity to meet with senior management and Phoenix's subject matter experts.

Investor presentations are generally filmed and the videos, as well as the presentation materials and transcripts, are made available on the Phoenix Group website.

CONFERENCES

Conferences enable the Group to meet with a significant number of investors and are important platforms for presenting Phoenix's investment proposition. This year, Phoenix attended six conferences in the UK and two in Paris organised by a number of investment banks, including Bank of America, J.P. Morgan Cazenove, Investec, KBW, Morgan Stanley and Natixis.

RESEARCH ANALYSTS AND SALES TEAMS

Phoenix maintains an active dialogue with its equity and debt research analysts, who are invited to attend investor events such as results presentations and the Capital Markets Day.

Senior management and Investor Relations held a total of 25 presentations to equity and debt sales teams to promote the Phoenix investment case. In addition, they participated in seven reverse roadshows.

DEBT INVESTORS

The Debt Investor Relations programme is managed by the Group Treasury department and supported by the Investor Relations department. The Board is kept informed of the current credit views of debt investors through regular debt capital markets updates and summaries of meeting feedback. Senior management conducted three non-deal debt investor roadshows in the UK, Continental Europe and Asia, meeting 96 debt investors overall. In addition, the Group Treasury team also organised a Group lunch aimed at debt investors.

CREDIT RATINGS AGENCIES AND BANKS

Phoenix's life companies and bonds in issue have credit ratings by Fitch Ratings. The Group meets with the rating agency at least once per year for the annual ratings review. The Group Treasury Team and management last provided Fitch with an update in December 2019 in relation to the announcement of the acquisition of ReAssure Group plc.

Prior to that the team had given a comprehensive presentation in June as part of the annual review process. The Group Treasury department and senior management also keep a constant dialogue with the Group's relationship banks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ('ESG') RATING AGENCIES

Phoenix responds to certain questionnaires from non-financial rating agencies and is a constituent of the FTSE4Good index which is designed to measure the performance of companies demonstrating strong ESG practices.

PRIVATE SHAREHOLDERS

Private shareholders are encouraged to engage with the Group through the Investor Relations team and Company Secretariat. Contact details for the Investor Relations team can be found on Phoenix Group's website.

ANNUAL GENERAL MEETING ('AGM')

The Group's AGM is an opportunity to communicate with shareholders who are invited to ask questions during the meeting and then are able to meet with members of the management team and Directors. Business to be discussed at the meeting is notified to shareholders in advance through the Notice of Meeting. The Group will hold Extraordinary General Meetings ('EGMs') to address matters that arise in between AGMs such as for example asking shareholders for approval of certain corporate transactions that require a shareholder vote.

GOVERNMENT, TRADE BODIES AND REGULATORS

We communicate the views and concerns of customers to government and wider policymakers.

The Group regularly engages with political stakeholders at Westminster and Holyrood, along with key trade bodies representing the industry, to communicate the views and concerns of its customers to government and wider policymakers.

GENERATION X

The Group sponsored the Pensions Policy Institute ('PPI') to undertake research into the long-term savings position of 'Generation X', encompassing those aged 39–53, totalling around 13 million people. The report considers the challenges facing this generation, who are less likely to have the levels of Defined Benefit provision enjoyed by those before them. The report continues to serve as a useful tool for conversations with policymakers, clients and customers, helping individuals achieve better retirement outcomes.

COLLABORATIONS WITH TRADE ASSOCIATIONS

The Group collaborates with a range of trade associations representing the sector. Susan McInnes, Group Director of Open Business, continues as chair of the Association of British Insurers' ('ABI') Long-Term Savings Committee, which informs the ABI's work on key initiatives including the pensions dashboard, which over time will enable customers to see all of their pension pots across different providers in one place online.

Colleagues also lend their expertise to a variety of expert working groups – Phoenix has, for example, taken a leading role in supporting the Pensions Scams Industry Group, which has been successful in helping to prevent some instances of pension fraud.

As a major employer in Scotland, the Group became a signatory to the Scottish Business Pledges during the year, a voluntary initiative between the Scottish Government and business to help build a fairer Scotland. Key elements include paying the Living Wage and a commitment to investing in a skilled and diverse workforce.

Group Finance Director and Group Director, Scotland, James McConville, is a member of the Scottish Government's Financial Services Advisory Board ('FiSAB'), chaired by the First Minister, which advises Ministers on matters relating to the financial services industry.

A record of our face-to-face meetings with MSPs, members of the Scottish Government and Junior Scottish Ministers is publicly available on the Scottish Lobbying Register. The Group actively supports Scottish Financial Enterprise ('SFE'), the representative body for Scotland's financial services industry, on their initiatives and working groups, along with the Edinburgh Chamber of Commerce.

REGULATORY RELATIONSHIPS

The Group maintains a strong and open relationship with the Prudential Regulation Authority ('PRA'), Financial Conduct Authority ('FCA') and other regulators. The Regulatory Relationship team, which reports to the Group Chief Risk Officer, manages interactions with the PRA, FCA and other primary regulators and liaises with them regularly.

The Board Risk Committee also receives monthly updates on the Group's regulatory interaction.

Read more on the Group's website: www.thephoenixgroup.com/media/generation-vexed.aspx

CORPORATE **GOVERNANCE**

IN THIS SECTION

Chairman's Introduction....................74
Board Structure.................................77
Board of Directors............................78
Executive Management Team........ 80
Corporate Governance Report 81
Board Leadership and Company Purpose........................82
Division of Responsibilities 88
Composition, Succession and Evaluation 90
Audit, Risk and Internal Control ...92
Directors' Remuneration Report 99
Directors' Report 131
Statement of Directors' Responsibilities.............................135

PROTECTING OUR CUSTOMERS AND SHAREHOLDERS

"Strong governance must remain a bedrock for the Group as we continue to grow as a FTSE 100 company, with the aims of both protecting our customers and shareholders and enhancing our performance."

Nicholas Lyons
Chairman

UK CORPORATE GOVERNANCE CODE

As detailed in the Corporate Governance Report on pages 81 to 130, we complied in 2019 with all the provisions of the UK Corporate Governance Code ('the Code'). This followed our taking steps to comply with the new Code provisions which applied to Phoenix from the accounting year 2019. We have complied with all the provisions of the Code in its appropriate version in each of the last five years.

SECTION 172

Details of how the Board engaged with Phoenix's various stakeholders in accordance with section 172 of the Companies Act 2006 are shown in the Corporate Governance Report on pages 81 to 130.

FAIR, BALANCED AND UNDERSTANDABLE

In accordance with the UK Corporate Governance Code, the Directors confirm that they have reviewed the Annual Report and consider that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

SHAREHOLDERS

I am grateful to our shareholders for their continual strong support, both for ongoing matters at our AGM and for our strategic propositions. Following the tremendous support for two large rights issues in 2016 (Abbey Life acquisition) and 2018 (Standard Life Assurance acquisition), we are not calling on our existing shareholders to provide equity for the acquisition of ReAssure Group. However, I do wish to thank them for their strong support at our May 2019 AGM when all 24 resolutions were passed with a majority of at least 92% of all votes cast and at our General Meeting in February 2020 for the acquisition of ReAssure when both resolutions were passed by at least 99% of all votes cast.

Many of our shareholders have been with us on our upwards trajectory into the FTSE 100 index which we joined in March 2019. Our Board Evaluation Review was undertaken in the fourth quarter of 2019. This followed our two-day Board strategy offsite session in July 2019 and focused on how the Board could best drive the Group's corporate strategy forward, underpinned by strong governance; to the continued benefit of customers and shareholders.

I am particularly grateful for the support we receive from our biggest shareholder and strategic partner, Standard Life Aberdeen and look forward to welcoming two new strong strategic partners, Swiss Re and MS&AD who are each expected to hold approximately 13% to 15% of our total shares in issue on completion of the ReAssure acquisition later this year.

BOARD OF DIRECTORS AND SUCCESSION

A major role for the Board, the Nomination Committee and me, as Chairman, was the orderly succession for our Group Chief Executive Officer. We focused on this in 2019 and I am pleased that we secured Andy Briggs as the successor to Clive Bannister after Clive's superb nine years at the Phoenix helm. Andy was appointed as our top choice for the role after a robust process, considering both internal and external candidates.

Our Group Finance Director Jim McConville retires at our May 2020 AGM after eight very successful years as Group Finance Director. The succession for Jim has been carefully planned and I am confident that Rakesh Thakrar, our Deputy Group Finance Director since July 2014, will be a worthy successor to Jim.

In September 2019, we were pleased to welcome Mike Tumilty to our Board as one of the Standard Life Aberdeen nominees (in accordance with their shareholder rights). Mike is a replacement to Barry O'Dwyer who left the Standard Life Aberdeen Group ('SLA') to become Chief Executive of Royal London. I wish to thank Barry for his insightful contribution during his short time on our Board. I look forward to welcoming to our Board a nominee from each of our new strategic partners, Swiss Re and MS&AD, on completion of the ReAssure acquisition later this year. As well as bringing a new geographical element, I am confident that the directors nominated to our Board by Swiss Re and MS&AD (who will each have rights attached to their shareholdings to nominate one director to the Phoenix Board) will bring strong additional skills to our Board.

At that point, SLA's shareholding is expected to reduce to the level (between 10% and 15% of issued share capital) where they will have one nominee instead of two on our Board.

GROWTH WITH ROBUST GOVERNANCE

During the five years from 1 January 2015 to 31 December 2019, Phoenix's market cap trebled from £1.8bn to £5.4bn. Its FTSE position rose from 167th to 91st. During that time, Phoenix remained fully compliant with the provisions of the UK Corporate Governance Code.

KEY STATISTICS

	December 2019	December 2018
Market Cap	**£5.40bn**	£4.06bn
FTSE position	**91**	97
AGM votes in favour of all resolutions	**May 2019 92%**	May2018 93%
UK Corporate Governance Code	**Fully compliant in 2019**	Fully compliant in 2018

Given the Executive Directorship changes and continual rotation of non-executive Directors over the last few years (including my own appointment as Chairman in October 2018), the Board Evaluation Review concluded in 2019 that a period of Board stability would be preferable going forward. This excludes the changes from our strategic partnerships. This conclusion was reached after the review had considered the balance of skills and experience on the Board and that these were strong and appropriately diverse.

During the year, Karen Green commenced her role as Director for Workforce Engagement. This has commenced encouragingly and further information is provided in our Corporate Governance Report on page 84. I see this as part of a wider programme of enhancing the Board's engagement with our Phoenix colleagues. We held one particularly successful interactive day when the Board met in October 2019 in our Edinburgh office, and we took the opportunity to hold engagement sessions for colleagues from across the business with all Board members and also each of our Audit, Remuneration and Risk Committee Chairs.

I am pleased that our Board complies (as at 10 March 2020) with the target of the Hampton-Alexander Review for the Board to be at least 33% female. With the proposed appointment to the Board of Rakesh Thakrar at our May 2020 AGM, we will comply with the target of the Parker Review for the Boards of FTSE 100 companies to contain at least one ethnic minority director by 2021.

EVOLUTION OF BOARD FOCUS

As well as the continual focus of the Board on strategy and performance, the Board has increased its activity in 2019 on the important topic of Environmental, Social and Governance ('ESG') matters and the Group appointed its first Head of Sustainability. The Board will continue to increase its activity in this sphere. The Board also reviewed the Group's culture and values in 2019 appropriately focusing on these matters as central to how the Group operates to the benefit of customers, shareholders and our colleagues. Details of how the Board engaged with Phoenix's various stakeholders in accordance with section 172 of the Companies Act 2006 are included in the Corporate Governance Report on pages 82 to 83.

The following sections provide more detail on our Board of Directors, Executive Management team, operation of governance and remuneration practices:

- Board and Committee structure
- Board of Directors
- Executive Management Team
- Corporate Governance Report
- Directors' Remuneration Report
- Directors' Report.

Nicholas Lyons
Chairman

Corporate Governance

IN THIS SECTION

The Corporate Governance Report has been restructured to align with the five pillars of the UK Corporate Governance Code 2018.

		Page
BOARD STRUCTURE	• Board and Committees and overview of their responsibilities	77
BOARD OF DIRECTORS	• Biographical details and experience of the Directors	78
EXECUTIVE MANAGEMENT TEAM	• Roles and responsibilities of the Executive Management team	80

CORPORATE GOVERNANCE REPORT

BOARD LEADERSHIP AND COMPANY PURPOSE	• Board allocation of agenda time • Operation of the Board • Culture, values and their link to Companies Act Section 172 • How the Board has discharged its Section 172 duties • Bringing the Employee Voice to the boardroom	81
DIVISION OF RESPONSIBILITIES	• Board roles and responsibilities • Board Independence and Appointment Terms • Board and Committee attendance	88
COMPOSITION, SUCCESSION AND EVALUATION	• Nomination Committee Report – Role of the Committee – Board Succession – Board recruitment process and recruitment of the new CEO – Board diversity policy – Board evaluation review	90
AUDIT, RISK AND INTERNAL CONTROL	• Audit Committee Report – Role of the Committee – Principal Activities during 2019 – Auditor's Appointment – Assessment of the Effectiveness of the External Audit Process – Auditor's Independence and External Auditor Policy – Significant Matters considered in relation to the Financial Statements • Risk Committee Report – Role of the Committee – Significant Matters discussed in 2019 – Principal Activities during 2019 – Review of System of Internal Controls	92

DIRECTORS' REMUNERATION REPORT

REMUNERATION	• Role of the Committee • Remuneration Committee Chair's letter • Director's Remuneration Report – Remuneration at a glance – Directors' remuneration policy – Annual report on remuneration	99

Board Structure

PHOENIX GROUP **HOLDINGS BOARD AND COMMITTEES**

The main focus of the Phoenix Group Holdings Board is on Group strategy and performance, with input from Board committees. The chart below sets out the main activities of the Phoenix Group Holdings Board and its Committees. More detailed operational and customer-focused matters are addressed at the subsidiary board and committee level. The Board has delegated specific responsibilities to four standing committees of the Board. The terms of reference of the committees can be found on the Company's website.

The role of the Board and its committees

PHOENIX GROUP HOLDINGS PLC BOARD

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

page 78

BOARD COMMITTEES

Audit Committee

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

page 92

Risk Committee

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

page 97

Nomination Committee

- Board and Senior Executive Appointments
- Diversity and Inclusion
- Board and Senior Executive Succession Planning

page 90

Remuneration Committee

- Group Remuneration Framework
- Executive Director Remuneration
- Employee Share Schemes

page 99

THE GROUP IS GOVERNED BY OUR **BOARD OF DIRECTORS**

The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group CEO Designate (until 10 March 2020 when he assumes the role of Group CEO), the Group Finance Director, two SLA nominated Directors and seven independent Non-Executive Directors.


1


2


3


4


5

1. NICHOLAS LYONS
N

Chairman

Appointed to the Board: 31 October 2018

Experience: Nicholas Lyons was appointed Chairman of the Board of Directors of Phoenix Group Holdings and Chairman of the Nomination Committee of Phoenix Group Holdings with effect from 31 October 2018. Nicholas Lyons joined JP Morgan in 1982, where he worked for 12 years in debt and equity capital markets and mergers and acquisitions. He spent eight years at Lehman Brothers, as a Managing Director in their European financial institutions group, ending his executive career in 2003 as Global Co-Head of Recruitment. Mr Lyons has held a number of positions on the boards of other financial institutions including the Pension Insurance Corporation, where he was the Senior Independent Director from 2016 until July 2018. He also held positions on the boards of the Catlin Group Limited, Miller Insurance Services Ltd where he was Chairman from 2008 until 2016, Friends Life Group Limited and Friends Life Holdings plc. Mr Lyons is on the Board of the British United Provident Association Limited (BUPA) and Convex Group Limited and is also Chairman of Clipstone Industrial REIT plc. He is an Alderman in the City of London Corporation.

2. CLIVE BANNISTER

Group Chief Executive Officer
(Until 10 March 2020)

Appointed to the Board: 28 March 2011

Experience: Clive Bannister joined the Group in February 2011 as Group Chief Executive Officer. Prior to this, Mr Bannister was Group Managing Director of Insurance and Asset Management at HSBC Holdings plc. He joined HSBC in 1994 and held various leadership roles in planning and strategy in the Investment Bank (USA) and was Group General Manager and CEO of HSBC Group Private Banking. He started his career at First National Bank of Boston and prior to working at HSBC was a partner in Booz Allen Hamilton in the Financial Services Practice providing strategic support to financial institutions including leading insurance companies, banks and investment banks. Mr Bannister is also Chairman of the Museum of London.

3. ANDY BRIGGS

Group Chief Executive Officer
(From 10 March 2020)

Andy Briggs was appointed Group Chief Executive Officer (designate) of the Company on 1 January 2020. Mr Briggs has over 30 years of insurance industry leadership experience and is a qualified actuary. He was Group Chief Executive of Friends Life, the listed insurer, Managing Director of Scottish Widows, Chief Executive of the Retirement Income division at Prudential and Chairman of the ABI. Most recently he was CEO UK Insurance of Aviva plc until April 2019. He is a Trustee and Chair of the Income Generation Committee of the NSPCC and also serves as the UK Government's Business Champion for the Ageing Society.

4. JAMES MCCONVILLE

Group Finance Director
and Group Director, Scotland

Appointed to the Board: 28 June 2012

Experience: Between April 2010 and December 2011, Mr McConville was Chief Finance Officer of Northern Rock plc. Prior to that, between 1988 and 2010, he worked for Lloyds Banking Group plc (formerly Lloyds TSB Group plc) in a number of senior finance and strategy related roles, latterly as Finance Director of Scottish Widows Group and Director of Finance for the Insurance and Investments Division. During 2011 and 2012, Mr McConville was a Non-Executive Director of the life businesses of Aegon UK. In 2014, Mr McConville joined the board of Tesco Personal Finance plc as a Non-Executive Director. Mr McConville qualified as a Chartered Accountant whilst at Coopers and Lybrand.

5. ALASTAIR BARBOUR
A N RI

Senior Independent Director

Appointed to the Board: 1 October 2013

Experience: Alastair Barbour has over 30 years' audit experience with KPMG where he worked across the full spectrum of financial services clients from large general insurers and reinsurers to the life insurance and investment management sector, working on a range of operational and strategic issues. Mr Barbour is the former Head of Financial Services, Scotland for KPMG. He retired from KPMG in 2011 to build a non-executive career. He is a Director and Audit Committee Chairman of RSA Insurance Group plc and Chairman of Liontrust Asset Management plc (both London Stock Exchange listed companies). He is also a Director of The Bank of N. T. Butterfield & Son Limited, a group listed on the New York Stock Exchange and in Bermuda. Mr Barbour was appointed Senior Non-Executive Independent Director on 2 May 2018.

6. CAMPBELL FLEMING
Non-Executive Director

Appointed to the Board: 31 August 2018

Experience: Campbell Fleming is the Global Head of Distribution at Aberdeen Standard Investments, the asset management business of Standard Life Aberdeen. He joined Aberdeen Asset Management in August 2016 from Columbia Threadneedle Investments where he was the Chief Executive – EMEA and Global COO for four years. Mr Fleming recently stepped down as Chair of the Investment Association Trade Committee and has previously held senior positions at JP Morgan Asset Management

7. KAREN GREEN
A R
Independent Non-Executive Director

Appointed to the Board: 1 July 2017

Experience: Karen Green is the former Chief Executive of Aspen UK, which comprised the UK insurance companies' of Aspen Insurance Holdings, and was a member of the Aspen Group Executive Committee for 12 years. She also held a number of other senior positions including Group Head of Corporate Development, Strategy, and Office of the Group CEO. Prior to that, she held various senior private equity and corporate finance roles from 1997 to 2005 at GE Capital and then MMC Capital, gaining substantial M&A experience, having worked previously at Baring Brothers and Schroders. Ms Green is a non-executive director at Admiral Group plc and is a Council Member of Lloyd's of London. She is also a Vice President of the Insurance Institute of London.

8. WENDY MAYALL
RI
Independent Non-Executive Director

Appointed to the Board: 1 September 2016

Experience: Wendy Mayall has over 30 years of asset management experience, including as Group Chief Investment Officer and later consultant at Liverpool Victoria from 2012 to 2015, having previously been Chief Investment Officer for Unilever's UK pension fund from 1996 to 2011 and holding management responsibility for Unilever's pension funds globally. From 2006 to 2009, Ms Mayall was the Chair of the Investment Committee of the Mineworkers Pension Scheme, a British government appointment to one of the largest government backed pension schemes in the UK. Ms Mayall is a Non-Executive Director of Old Mutual Wealth Oversight Council. She is also the Senior Independent Director and Audit Committee Chair of Fidelity Investments Life Insurance Company and Chair of the Funding Committee for TPT Retirement Solutions.

9. JOHN POLLOCK
RI A
Independent Non-Executive Director

Appointed to the Board: 1 September 2016

Experience: John Pollock had a career in life assurance at the Legal & General Group from 1980 to 2015, including as an Executive Director of Legal & General Group plc from 2003 to 2015. Mr Pollock held numerous senior roles, gaining wide strategic and technical experience, finally as Chief Executive Officer of LGAS (L&G Assurance Society), one of Legal and General's three primary business units. Prior to Mr Pollock's retirement from Legal and General in 2015, he held positions as Deputy Chair of the FCA Practitioner Panel, Chairman of investment platform Cofunds, and as a Non-Executive Director of the Cala Homes Group.

10. BELINDA RICHARDS
R RI
Independent Non-Executive Director

Appointed to the Board: 1 October 2017

Experience: Belinda Richards has held senior executive positions at KPMG, EY, and latterly Deloitte from 2000 to 2010 where she was a senior corporate finance Partner and the Global Head of Merger Integration and Separation Advisory Services. She is an experienced Non-Executive Director, currently on the Boards of WM Morrison Supermarkets plc, Avast plc, The Monks Investment Trust plc and Schroder Japan Growth Fund plc. Previously, she has also been on the Boards of Aviva UK Life & Pensions, Grainger plc, Balfour Beatty plc and Friends Life Group Plc.

11. NICHOLAS SHOTT
A N
Independent Non-Executive Director

Appointed to the Board: 1 September 2016

Experience: Nicholas Shott is an investment banker, who has been European Vice Chairman of Lazard since 2007 and Head of UK Investment Banking at Lazard since 2009. Mr Shott joined Lazard in 1991 and became a partner in 1997. He is also a Non-Executive Director on the Board of the Home Office.

12. KORY SORENSON
R N RI
Independent Non-Executive Director

Appointed to the Board: 1 July 2014

Experience: Kory Sorenson is currently a Non-Executive Director and Chairman of the Audit Committee of SCOR SE, a Non-Executive Director and Chairman of the Remuneration Committee of Pernod Ricard SA, a Non-Executive Director and member of the Audit Committee of SGS SA and a member of the Supervisory Board of the privately-owned Bank Gutmann AG. Ms Sorenson has over 27 years of experience in the financial services sector, most of which has been focused on insurance and banking. She was a Member of the Supervisory Board of Uniqa Group (Austria), Non-Executive Director of Aviva Insurance Limited (UK), Member of the Supervisory Board of the Institut Pasteur (France), Managing Director, Head of Insurance Capital Markets of Barclays Capital and also held senior positions in the financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley. She began her career in the finance department of Total SA.

13. MIKE TUMILTY
Non-Executive Director

Appointed to the Board: 1 September 2019

Experience: Michael Tumilty is the Global Chief Operating Officer of Standard Life Aberdeen. He has worked in the financial services industry for 24 years, holding various senior positions, including Director of Operations at Aberdeen Standard Investments and Head of Investment Operations at Standard Life.

Committee membership

A Audit Committee
N Nomination Committee
R Remuneration Committee
RI Risk Committee
Denotes chairman

THE BUSINESS IS LED BY THE **EXECUTIVE COMMITTEE**

Executive Management of the Group is led by the Group Chief Executive Officer, Clive Bannister (Andy Briggs, from 10 March 2020), who is supported by the Executive Committee ('ExCo').

CLIVE BANNISTER (ANDY BRIGGS, FROM 10 MARCH 2020)
Group Chief Executive Officer

Roles and responsibilities
- 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's 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; and
- Manages the Group's key external stakeholders.

STEPHEN JEFFORD
Group Human Resources Director

Roles and responsibilities
- 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, ExCo and the Group Board and Remuneration Committee; and
- Delivers HR services to the Group.

TONY KASSIMIOTIS
Group Chief Operating Officer

Roles and responsibilities
- 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; and
- Ensures that the Group's procurement activities and shared services are efficient and effective.

JAMES MCCONVILLE
Group Finance Director and Group Director, Scotland

Roles and responsibilities
- 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; and
- Enhances shareholder value through clear, rigorous assessment of business opportunities.

JOHN MCGUIGAN
Group Head Of Customer

Roles and responsibilities
- 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; and
- Provides customer oversight, complaint handling and remediation activity.

SUSAN MCINNES
Chief Executive, Standard Life Assurance Limited, and Group Director, Open Business

Roles and responsibilities
- Leads development and delivery of the Standard Life business strategy;
- Ensures that the customer proposition is evolved and that it continues to meet the market need;
- Focuses on a business model which ensures good outcomes for customers, shareholders and all other stakeholders; and
- Ensures that Standard Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the Risk Universe and strategy.

ANDY MOSS
Chief Executive, Phoenix Life and Group Director, Heritage Business

Roles and responsibilities
- Leads the 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; and
- Ensures Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the Risk Universe and strategy.

JONATHAN PEARS
Chief Risk Officer

Roles and responsibilities
- 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; and
- Supports the Group 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

Roles and responsibilities
- 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 M&A); and
- Leads on all financial aspects of any M&A.

SIMON TRUE
Group Corporate Development Director and Group Chief Actuary

Roles and responsibilities
- 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 capital is managed efficiently across the Group;
- Manages the Group's solvency position;
- Leads the development of the Group's investment strategy; and
- Identifies and delivers opportunities to enhance shareholder value across the Group.

QUENTIN ZENTNER
General Counsel

Roles and responsibilities
- Leads provision of legal advice to the Group Board, other Group company boards, ExCo and senior management;
- Oversees and co-ordinates 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; and
- Designs and implements a whistleblowing framework within the Group.

Corporate Governance Report

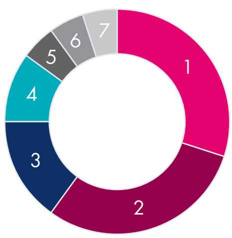
COMMITTED TO THE HIGHEST STANDARDS OF GOVERNANCE

The Board is committed to high standards of corporate governance and the Group's corporate governance policy is aligned to compliance with the UK Corporate Governance Code ('the Code') which sets standards of good practice for UK listed companies.

The following report demonstrates how Phoenix Group Holdings plc has applied the principles of the Code and complied with the provisions of the Code in 2019. It is the Board's view that the Company has been fully compliant during 2019 with the principles and provisions set down in the Code.

1. BOARD LEADERSHIP AND COMPANY PURPOSE

Board allocation of agenda time (%)



1. CEO report Strategy, performance, governance and regulatory review	30%
2. Strategy and planning Strategic and operational planning, consideration of corporate transactions	30%
3. CFO/MI report Monitoring performance against objectives	15%
4. Financial reporting External reporting	10%
5. Reports from Chairs of Committees Audit, Nomination, Remuneration and Risk Committee activity	5%
6. Board changes and performance Appointments, succession and performance	5%
7. Other matters	5%

VISION
Become Europe's Leading Life Consolidator

PURPOSE
Inspire confidence in the future

MISSION
Improve outcomes for customers and deliver value for shareholders.

OPERATION OF THE BOARD

The Board is responsible to the shareholders for the overall performance of the Group. The Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board has a schedule of matters reserved for its consideration and approval supported by a set of operating principles.

These matters include:

- Group strategy and business plans;
- Major acquisitions, investments and capital expenditure;
- Financial reporting and controls;
- Dividend policy;
- Capital structure;
- The constitution of Board committees;
- Appointments to the Board and Board committees;
- Senior executive appointments; and
- Key Group policies.

The schedule of matters reserved for the Board is available from the Company Secretary. Matters which are not reserved for the Board and also its committees under their terms of reference (which are available on the Group website), or for shareholders in general meetings, are delegated to the executive management under a schedule of delegated authorities approved by the Board.

Culture, Values and their link to Companies Act Section 172

During the year, the Board focused on deepening its understanding of and refining the Group's culture The Group Culture Insight Survey undertaken in December 2018 helped inform a new set of Group values adopted across the business: Passion, Responsibility, Growth, Courage and Difference. During 2019, these values were further evolved through direct interaction with colleagues and subsequent feedback from Senior Management resulting in approval of the refined values by the Group's Executive Committee in April 2019.

At a dedicated session in 2019, the Board then considered the Group's Culture and Values and later in 2019 reviewed the outcomes of the Group's Colleague Insight Survey.

This has influenced the Board's application of Section 172 of the Companies Act (see below), which has been applied in a manner consistent with the Group's purpose of inspiring confidence in the future for its stakeholders, in particular customers, shareholders, employees and considering the environment more generally; and at all times having regard to the Group's regulatory responsibilities as a financial services operation.

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

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

1. BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

The Board Discharging Section 172 duties
In discharging its section 172 duties, the Board has regard to the section 172 factors set out above which are listed as focus points on the agenda for each set of Board papers.

The Board received various information during 2019 which helped it understand the interests and views of the Company's key stakeholders when making decisions.

Likely consequences of decisions in the long term
The Board is continually focused on long-term preservation of value and the decisions to invest in Bulk Purchase Annuity purchases over the last two years and continuing as a core part of the Group's strategy have resulted in immediate capital retention for benefits emerging over the longer term. The Board's decision to acquire the Standard Life Assurance businesses in 2018 provided a substantial open business franchise to offset the Heritage business run-off. And the Board's consideration of its strategy (July 2019) followed by approval of the Annual Operating Plan (November 2019) focused strongly on preserving value and sustaining the dividend over the next ten years.

Communication with investors
The Company places considerable importance on communication with investors and regularly engages with them on a wide range of topics.

The Company's Investor Relations department is dedicated to facilitating communication with investors and analysts and maintains an active investor relations programme. Please see page 71 for further details regarding the Company's engagement with investors.

In addition, continued engagement is undertaken with shareholders and proxy advisers on evolving governance issues.

The Company's AGM provides another opportunity to communicate with its shareholders. At the 2019 meeting, the Code provisions were complied with. Shareholders were invited to ask questions during the meeting. It is intended that the same processes will be followed at the 2020 AGM.

The following are examples of how the Board has acted and taken decisions in a manner which has regard to its various stakeholders.

Board information	Board decision
Shareholders The Directors consider it important to understand the views of the market. Board members regularly receive copies of the latest analyst reports on the Company and the insurance sector, as well as market feedback to further develop their knowledge and understanding of external views about the Company. The Chairman and the Non-Executive Directors provide feedback to the Board on topics raised with them by major shareholders. The Company also undertakes perception studies, designed to determine the investment community's view of the core business. An investor perception survey on Phoenix undertaken by HSBC (Phoenix corporate broker) was discussed by the Board in July 2019.	The Board is continually focused on delivering value for shareholders and enhancing sustainability of the dividend, including through its decisions in 2018 to purchase the Standard Life Assurance businesses and in 2019 to purchase ReAssure Group. During 2019 the Board authorised the payment of dividends of 46.8p per share in accordance with its stable and sustainable dividend policy. The market cap of Phoenix Group has grown from c£1.8bn (1 January 2015) to £5.4bn (31 December 2019) and its position in the FTSE index over that time has risen from 167th to 91st. Over 2019, the Phoenix share price rose by 32%.
Customers Following two education sessions in the latter part of 2018 on the customer proposition and customer ethos and experience for Standard Life Assurance (acquired in August 2018), the Board received external and internal briefings in early 2019 on their responsibilities under the Senior Managers & Certification Regime. In addition, the subsidiary Life Company Board (and its specifically customer-focused With-Profits and Independent Governance Committees) spends considerable time to understand customers' views including visits to Outsource Service Providers who service much of the customer base.	All Board papers follow a template which requires consideration of proposals on Treating Customers Fairly. The Capital Management Policy, approved by the Life Company Board, ensures that the regulated life companies in the Group retain a robust level of capital. In addition the Life Company Board consists of a majority of independent non-executive directors who are not on the Group Board. The Life Company Board is focused strongly on preserving value for customers and is supported by several Board committees including the With-Profits Committee and Independent Governance Committee, which have duties to particular classes of customers and include non-executive Chairs and other non-executive members who are not directors of any Phoenix Group companies.

Board information	Board decision
Regulators The Board is updated at every Board meeting on regulatory matters as a key part of the Group CEO's Report enhanced by further reporting between Board meetings and as part of various other Board papers as the regulatory relationship is central to all Phoenix does as a major financial services operation. More detailed reporting on regulatory matters and the interaction with Phoenix's regulators occurs at the Board Risk Committee and at the Board and Risk Committee meetings of the Phoenix Life subsidiaries. Senior executives of the PRA and FCA attended the Board meeting on 2 July 2019 for an interactive session with the Board during which the regulators presented the key themes of their recent Periodic Summary Meeting Report ('PSM') and Firm Evaluation Report ('FEM')on Phoenix.	The Board's decisions have regard to the highly-regulated environment in which Phoenix operates. The Board's decision in December 2019 to acquire ReAssure Group plc is specifically subject to the change in control receiving regulatory approval. The Boards of the regulated Phoenix Life subsidiaries have approved a Capital Management Policy, agreed with the PRA, which governs distributions up the Group from the Phoenix Life subsidiaries to provide protection to customers. The decision-making structure of the Group includes the regulated Phoenix Life subsidiaries' Boards and also their With-Profits and Independent Governance Committees, all including independent members and established to provide further protection to customers' funds in accordance with regulation.
Environmental, Social and Governance ('ESG') As well as various briefings from management, the Board received an external presentation in October 2019 on topical ESG matters and their increasing relevance.	Following significant Board focus on ESG matters in 2019, a Head of Sustainability, Yvonne Gray, was appointed in November 2019, following which the Board approved a new ESG strategy in March 2020 after discussing it in January 2020. In addition, the Phoenix Group and Life Company Boards have approved investing in assets with a positive social impact as follows, as disclosed at the Phoenix Capital Markets day on 28 November 2019: • **City growth and regeneration** – c£100 million funding to progress investment in public services, transport and urban infrastructure • **Social housing** – c£100 million investment to help fund the development of more social and affordable homes • **Equity release** – c£1.1 billion Equity Release Mortgage origination, helping over 12,000 households unlock equity in their homes • **Clean energy** – c£135 million investment across solar, wind, hydro-electric and smart meters technologies • **Infrastructure** – c£150 million investment in new rail rolling stock to improve the journeys of both commuters and leisure travellers.
Employees The Board received presentations on the Group's Colleague Insight Survey undertaken in the second half of 2019 as well as a presentation on the Group's Values which had been developed through substantial input from colleagues across the business. The Board's understanding of the views of colleagues is being increased significantly through the direct interface of Karen Green, the designated Director for workforce engagement appointed to engage with the workforce.	The Board appointed Karen Green in March 2019 to undertake the role of the designated NED to engage with the workforce in support of the following provision in the Code: *The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making. The board should keep engagement mechanisms under review so that they remain effective. For engagement with the workforce, one or a combination of the following methods should be used:* • *A director appointed from the workforce* • *A formal workforce advisory panel* • *A designated non-executive director* Please see page 84 for further information on how Karen Green has engaged with the Phoenix workforce in 2019.
Suppliers The Board is updated at every Board meeting on the relationship with Phoenix's main Outsource Service Providers who are a vital part of the customer service proposition. This relationship was a key theme of the Board's offsite strategy session in July 2019. The operational risk aspect of the relationship with Outsource Service Providers is monitored at the Board Risk Committee and more detailed reporting occurs at the Board meetings of the Phoenix Life subsidiaries.	Contracts material to the Group require the approval of the Phoenix Group Holdings Board. During 2019, the Board considered the relationship with Phoenix's main Outsource Service Providers at its strategy offsite in July 2019 and over several meetings considered and then approved the material expansion of the outsource arrangement with TCS / Diligenta to provide support to Open as well as Heritage business and enhance the digital proposition for customers.

INSPIRING CONFIDENCE BY BRIDGING THE GAP BETWEEN THE BOARDROOM AND COLLEAGUES

At Phoenix, the Board is committed to ensuring effective two-way communication between themselves and colleagues. The Board regards culture as being integral to the effective execution of our strategy and achieving strong corporate performance. An informed Employee Voice is a key element of this.

"My main objective in this role is to provide a direct unfiltered line of communication between our colleagues and the Board. We hope that our colleagues' feel that this will be a further helpful channel for their views to be conveyed."

Following consideration by the Board as to the ways in which it engages with our colleagues, in conjunction with compliance with section 172 of the Companies Act, I was appointed as the Designated Non-Executive Director for Workforce engagement in April to help develop a closer connection between the Board and our colleagues.

How we engaged with colleagues in 2019

During the course of 2019, I undertook a number of visits across the business in Edinburgh, Wythall, London, Bristol, Frankfurt and Dublin. I also met with Senior HR business partners in each location to review key themes that related to our corporate culture. These visits were informative and provided the Board with timely additional perspective on the level of organisational engagement generally; progress in creating a unified set of values and key considerations for our colleagues, as the next phases of the planned integration of the Standard Life and Phoenix organisations took place during the year.

During my visits, I gained further insight into the diverse range of cultural 'ecosystems' we have across our various office locations. SunLife with its emphasis on digital innovation is a good example of this.

Our Networks

We have a strong group of colleague-led networks within Phoenix covering a wide range of different interest groups. I met with representatives from these networks and was able to obtain a good feel for the level of commitment and engagement across these groups, as we seek to create a more inclusive and diverse culture.

Above and Right
Interactive sessions with colleagues at Forum meeting

Left Karen Green, Stephen Jefford (Group HR Director) and colleagues at Forum meeting

In addition, I spent time with colleagues who are engaged specifically in a number of initiatives launched by the Group during 2019, focusing on Mental Health and Employee Wellbeing.

Unions and Staff Associations
Meetings also took place with colleagues from our staff association and union representatives, Vivo, Unite and the German Works Council to hear their views on creating a fair and engaging place to work.

The inaugural Colleague Advisory Forum
The above visits were followed by the inaugural meeting of our newly established Group wide Colleague Advisory Forum ('the Forum') in October. The Forum currently comprises 16 colleagues from different locations, grades and functions as representatives from across the business. Topics covered included:

- strategic updates;
- progress on the Group's Diversity and Inclusion initiatives;
- the output of the Group's bi-annual Colleague Insight Survey;
- embedding our harmonised values across our enlarged Group;
- steps towards aligning our People Proposition; and
- the role of the Phoenix Group Board and its Committees and a flavour of the themes and issues the Board discusses.

The output of our Colleague Insight Survey was a key discussion point at the Forum. We met soon after the survey results were available and this provided a further opportunity for review and to ensure feedback could be provided by all members. This survey will now take place on a bi-annual basis to provide colleagues with an additional opportunity to voice their opinions.

Key themes discussed with the Board
Key themes from my visits and the Colleague Engagement Forum which I discussed with my Board colleagues included:

- feedback on how the organisation communicates across the Group (given the volume of organisational change and various transformation projects);
- how Phoenix's strategic purpose is understood by our colleagues;
- the progress in embedding a common set of values across different locations and
- colleagues aspirations for more development and wishes to make a broader contribution.

Broader Board engagement
The Board also hosted additional engagement activities with colleagues in 2019 such as lunches with the Non-Executive Directors and additional interactive sessions hosted by the Committee Chairs in October. In addition the Board reviews regular reporting from the Group Human Resources Director and also had a 'deep dive' on work place culture.

I would like to thank the colleagues that I have met in 2019 and the Forum members for their engagement to date and honest feedback. I look forward to continued discussions with colleagues from around the business in 2020 and anticipate that the Group's sustainability strategy, 'committing to a sustainable future' will be a key focus area.

Karen Green
Designated Non-Executive Director for Workforce Engagement

INSPIRING CONFIDENCE THROUGH BOARD ENGAGEMENT

As part of our programme of enhancing the Board's engagement with colleagues, the Board held a series of interaction sessions with colleagues at our Edinburgh office. This was held over two days in October 2019 to coincide with the Board meeting programme.

The sessions included an informal lunch when the Board engaged with various colleagues over topics raised, and separate sessions for colleagues from various parts of the business with each of the Chairs of the Audit, Risk and Remuneration Committees. The Board believes these are good ways to hold two-way informal conversations with colleagues and intends to do more in 2020.

Top Alastair Barbour (Board Audit Committee Chair)

Left John Pollock (Board Risk Committee Chair)

Middle Edinburgh colleagues at Board Committee Interaction Session

Middle Edinburgh colleagues at Board Committee Interaction Session

Bottom Kory Sorenson (Board Remuneration Committee Chair)

Right Nicholas Lyons, Group Chairman with Edinburgh Colleagues

"Our Edinburgh risk function colleagues found it invaluable to hear from John Pollock, the Chair of the Risk Committee, on the type of assurance the Board looks for from a Risk function. It was also extremely useful to hear first-hand on the wealth of experience that John brings to the Group to help navigate the various challenges that lie ahead, and in particular his thoughts on the key risks facing the Group in the near future."

Roshan Lachman
Financial Risk Director

2. DIVISION OF RESPONSIBILITIES

THE CHAIRMAN, GROUP CHIEF EXECUTIVE OFFICER AND SENIOR INDEPENDENT DIRECTOR

Nicholas Lyons is Chairman of the Board of Directors of the Company. There is a division of responsibility, approved by the Board, between the Chairman, who is responsible for the leadership and effective operation of the Board and the Group Chief Executive Officer, Clive Bannister, who is responsible to the Board for the overall management and operation of the Group.

The Chairman's other commitments are set out in his biographical details on page 78. The Chairman was appointed on the basis of committing two days per week to Phoenix.

The Senior Independent Director, appointed by the Board, is Alastair Barbour. His role is to be available to shareholders whose concerns are not resolved through the normal channels or when such channels are inappropriate. He is also responsible for leading the annual appraisal of the Chairman's performance by the Non-Executive Directors.

BOARD INDEPENDENCE AND APPOINTMENT TERMS

The Board considers that the following Directors are independent: Alastair Barbour, Karen Green, Wendy Mayall, John Pollock, Belinda Richards, Nicholas Shott and Kory Sorenson. The Board has considered the criteria proposed by the Code in assessing the independence of the Directors.

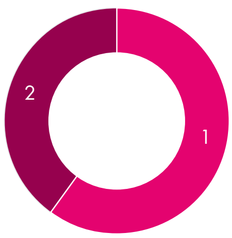
The terms and conditions of appointment of Non-Executive Directors are on the Group's website. The remuneration of the Directors is shown in the Directors' Remuneration Report on pages 99 to 130.

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. In January 2020, the Nomination Committee reviewed the time spent by Directors and concluded that the time required of (and given by) the Directors is considered to exceed the level expected in their appointment terms.

The Board met nine times during 2019 and is scheduled to meet seven times in 2020 including for a two-day strategy setting meeting. Additional meetings will be held as required, and the Non-Executive Directors will hold meetings with the Chairman, without the Executive Directors being present, as they did on several occasions in 2019.

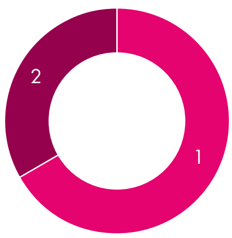
BOARD COMPOSITION AS AT 31 DECEMBER 2019

Board excluding SLA nominees



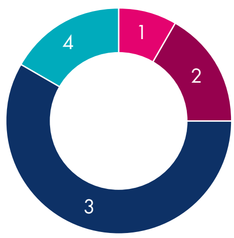
1. Male	6
2. Female	4

Board including SLA nominees



1. Male	8
2. Female	4

Total Board composition



1. Chairman	1
2. Executive Directors	2
3. Independent Non-Executive Directors	7
4. Non Independent Non-Executive Directors	2

BOARD AND COMMITTEE ATTENDANCE 2019

	Board meetings	Audit	Risk	Nomination	Remuneration
	Actual/Max	Actual/Max	Actual/Max	Actual/Max	Actual/Max
Chairman					
Nicholas Lyons	9/9			3/3	
Executive Directors					
Clive Bannister (Group CEO)	9/9				
James McConville (Group FD)	9/9				
Non-Executive Directors					
Alastair Barbour	9/9	6/6	7/7	3/3	
Campbell Fleming	7/9				
Karen Green	9/9	6/6			7/7
Wendy Mayall	9/9		7/7		
Barry O'Dwyer[1]	2/3				
John Pollock	9/9	6/6	7/7		
Belinda Richards	9/9	4/4	5/7		4/4
Nicholas Shott	8/9	1/2		2/3	6/7
Kory Sorenson	9/9		3/3	3/3	7/7
Mike Tumilty[2]	3/4				

1 Barry O'Dwyer resigned from the Board on 28 June 2019.
2 Mike Tumilty was appointed to the Board on 1 September 2019.

The Nomination Committee has confirmed its absolute satisfaction with the time and commitment given to Phoenix by all Directors. The Board, Audit, Nomination and Remuneration Committee attendance records for Nicholas Shott were impacted by his missing one meeting of each on the same date due to ill health. His attendance record was otherwise at 100%. Mike Tumilty missed the first Board meeting following his Board appointment due to a pre-existing commitment. Belinda Richards missed two of seven Risk Committee meetings, one for a family bereavement and one for a transactional meeting called at short notice. Her commitment is demonstrated by her attendance record being at 100% for Board, Audit and Remuneration Committee meetings.

03. COMPOSITION, SUCCESSION AND EVALUATION

NOMINATION COMMITTEE REPORT

Members

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

KEY NOMINATION COMMITTEE ACTIVITIES IN 2019

- Group Chief Executive Officer Succession
- Group Finance Director Succession
- Review of Board skills, experience and diversity
- Proposal for Board Committee changes
- Review of Directors' time commitment to Phoenix
- Diversity and Inclusion Oversight

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

The Nomination Committee met three times in 2019. This was less than in prior years as there was no non-executive recruitment in 2019. This was driven by the outcome of the November 2018 Board Evaluation Review which concluded that given the overall relatively short tenure of the non-executive directors on the Board, there should be no non-executive recruitment in 2019. The focus was instead on the succession planning for the Executive Directors. This was undertaken first at the Nomination Committee and then at the Board and led to the announcement on 8 November 2019 of Andy Briggs as successor to Clive Bannister as Group CEO.

The Nomination Committee has been very active in non-executive recruitment over the last few years. Recruitment since 2016 has included the role of Group Chair in 2018, with new Non-Executive Directors as follows:

- September 2016 – Wendy Mayall, John Pollock, Nicholas Shott
- July 2017 – Karen Green
- October 2017 – Belinda Richards
- August 2018 – SLA nominees, Campbell Fleming and Barry O'Dwyer
- October 2018 – Nicholas Lyons
- September 2019 – SLA nominee, Mike Tumilty

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

The Board supports, and complies with (effective 10 March 2020), the Hampton-Alexander guidance for FTSE 350 companies that the Board should be comprised of at least 33% female directors. The Board also intends to comply with the guidance of the Parker Review for FTSE 100 companies that there should be at least one ethnic minority director on the Board by 2021, and will do so through the proposed appointment to the Board of Rakesh Thakrar from the May 2020 AGM.

The Board's policy on diversity is as follows:

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

The Nomination Committee has been instrumental in increasing gender diversity on the Board and in 2019 took an active role in oversight and guidance of the executive diversity and inclusion process including a focus on the development of a diverse succession pipeline. Details of the policy of diversity and inclusion for executives is contained in the colleagues section on page 36 to 37 of this Annual Report including the gender balance of those in senior management.

BOARD EVALUATION REVIEW

In accordance with the Code, an evaluation of the performance of the Board and that of its Committees and individual Directors was undertaken in the latter part of 2019. The process was led by the Chairman and internally facilitated by the Company Secretary. The process involved completion by Directors of a questionnaire covering various aspects of Board, Committee and Director effectiveness followed by individual meetings between the Chairman and each Director, concluding in a Board report which was discussed by the Board in November 2019. The focus of the review was to consider ways for the Board to manage its time most effectively to drive strategy and monitor performance in a robustly compliant manner. The actions arising from the review were consistent with this theme, underlining the Board's desire to continue to focus on strategy and the Group's future as a growing heritage and open business. These process- centred actions are being taken forward in 2020.

The report from the Board Evaluation Review was discussed at a Board meeting in November 2019 before the Board had approved the proposal to acquire ReAssure. The review concluded that the Board operates well with strong and diverse skills and experience, adding that more open business skills and experience would be an incremental benefit. That has since been achieved with the appointment of Andy Briggs as Group CEO. The report also concluded that stability in Board membership in the near-term would be preferred. It is the intention of the Board and Nomination Committee that the skills and experience on the Board will be re-assessed once the new Board appointees nominated by Swiss Re and MS&AD are known, following the intended completion of the ReAssure acquisition.

In addition to the matters referenced above, a further activity for the Nomination Committee was to review the time spent by Directors in fulfilling their duties. This concluded that the time given by Directors in 2019 exceeded the level expected in their appointment terms, particularly given the time devoted by the Board to lead to the approval of the acquisition of ReAssure in December 2019. This followed significant demands on the Board's time in early 2018 to approve the acquisition of Standard Life Assurance.

To ensure that the Directors maintain up-to-date skills and knowledge of the Group, all Directors receive regular presentations on different aspects of the Group's business and on financial, legal and regulatory issues. All Directors receive a tailored induction on joining the Board in accordance with a process approved by the Board. In 2019 the new SLA-nominated Director, Mike Tumilty, undertook a comprehensive induction, including detailed strategic and operational briefings and information, before and following his appointment.

In accordance with the provisions of the Articles and the Code, all Directors will submit themselves for election or re-election at the Company's AGM on 15 May 2020.

> "I am pleased with the very successful outcome from the Nomination Committee's work on the succession planning for the Group CEO, resulting in the appointment of Andy Briggs to succeed Clive Bannister."

Nicholas Lyons
Chairman

04. AUDIT, RISK AND INTERNAL CONTROL

AUDIT COMMITTEE REPORT

Members

- Alastair Barbour (Chair)
- Karen Green
- John Pollock
- Belinda Richards (until 2 July 2019)
- Nicholas Shott (from 2 July 2019)

KEY AUDIT COMMITTEE ACTIVITIES IN 2019

- Reviewed the Company's 2018 Annual Report and 2019 Interim Financial Statements
- Review of the actuarial processes, methodologies and assumptions
- Considered regular updates on the 2019 Internal Audit Plan
- Reviewed and monitored the effectiveness and independence of the Company's External Auditors
- Considered the financial aspects of the proposed ReAssure acquisition

The composition of the Audit Committee is detailed within the table shown above and is in accordance with the requirements of the UK Corporate Governance Code 2018 ('Code') and also with DTR 7.1.1AR. As part of the 2019 Effectiveness review, it was confirmed that all four members of the Audit Committee are considered as independent Non-Executive Directors. In accordance with the Code, it is confirmed that at least one member has recent and relevant financial experience and the members of the Committee as a whole have competence relevant to the insurance industry.

The Audit Committee met six times during 2019. Its meetings are attended by the Chair of the Risk Committee (who is also a member of the Audit Committee), the Group Finance Director, the Deputy Group Finance Director, the Group Head of Internal Audit, the external auditors and usually also by the Group Board Chair and the Group Chief Executive Officer. The Audit Committee holds private meetings at least annually with each of the Group Finance Director, the Group Head of Internal Audit and the external auditors. The Audit Committee acts independently of management, and engages closely with both the Group Risk Committee and the Life Company Audit Committee to ensure there is a good understanding of the work undertaken by each and enable efficient communication between the Committees.

AUDIT COMMITTEE'S ROLE AND FOCUS

2019 has been a year of continued change for the Group with the ongoing transition activities that have followed the acquisition of Standard Life. The political landscape remained turbulent during the year with sustained uncertainty around the UK's decision to leave the European Union and other macroeconomic factors leading to continuing volatility in financial markets. Against this backdrop, the main focus for the Audit Committee continues to be the oversight of the integrity of the Company's financial statements and the soundness and effectiveness of the Group's systems and controls, together with monitoring the effectiveness of both the Internal and External auditors. This encompasses the following key functions:

- Receiving and reviewing the Annual Report and Accounts, the Solvency and Financial Condition Report and other financial results, statements and disclosures, and recommending their approval to the Board.
- Monitoring the overall integrity of the financial reporting by the Company and its subsidiaries and the effectiveness of the Group's internal controls.
- Provision of advice to the Board to enable the Board to report on whether the Annual

Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

- Responsible for making recommendations to the Board on the appointment of the external auditors and their terms of engagement including approval of external auditor fees and non-audit services and for reviewing the performance, objectivity and independence of the external auditors.
- Considering and approving the remit of the Internal Audit function and reviewing its effectiveness.
- Oversight of activities of subsidiary audit committees through receipt and review of minutes, discussions between the Chairs of the Audit Committee and subsidiary audit committees, and the Audit Committee Chair's attendance at the Phoenix Life Audit Committee on an occasional basis, as well as his receipt of all papers going to the Phoenix Life Audit Committee. This oversight has been enhanced further through the attendance at the Audit Committee, on at least an annual basis, by the Chair of the Phoenix Life Audit Committee.

AUDIT COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2019

External reporting and controls

The Audit Committee in 2019 carried out the following activities in relation to the Group's external reporting and the effectiveness of its internal controls:

- Reviewed the Company's 2018 Annual Report and Accounts, and the 2019 Interim Financial Statements, recommending their approval to the Board, as well as related disclosures and the financial reporting process, supported by reports from management and the external auditors. Reviewed the Group's annual Solvency II results and the Solvency and Financial Condition Report, recommending their approval to the Board.
- Reviewed a number of significant matters in relation to the Group's IFRS and Solvency II reporting as summarised in the table on page 96. These matters were considered by the Audit Committee to be areas subject to the most significant levels of judgement or estimation, and identified with regard to the key audit matters assessed by the Group's external auditors as set out in their audit opinion on pages 137 to 146;.
- Reviewed the financial forecasts and target setting prepared by management, supported by the sensitivity analysis on the key assumptions underpinning the forecasts, in support of the assumption that the Group will continue as a going concern, the Group's ongoing viability and in support of dividend payments.
- Reviewed the Line 1 risk and controls report from management, the Line 2 internal control assessment from Group Risk, and the annual Line 3 internal control environment opinion report (and the half year update) from Internal Audit prior to its consideration by the Board and received reports regarding consequential actions; and received a dedicated briefing on 21 January 2020.
- Considered financial disclosures pertaining to the announcement of the proposed acquisition of ReAssure Group plc, supported by reports from management and the Group's external auditors.
- Reviewed reports from Internal Audit on the control environment in the Group's outsource service providers and on the effectiveness of the internal audit work undertaken within the outsource service providers, noting that this was addressed in more detail at the Phoenix Life Audit Committee.
- Received dedicated briefings on matters including Finance and Actuarial Transition activity and the Group's implementation of the new insurance accounting standard, IFRS 17.
- Reviewed the final accounting adopted in the 2018 consolidated financial statements for the acquisition of the Standard Life Assurance businesses, including the valuation of tangible net assets, the valuation of intangibles and the gain on bargain purchase, supported by reports from management and the external auditor.

"

The Committee has delivered on it's key responsibilties against the changing political and economic environment. The Committee will continue to focus on ensuring that there is a robust internal control environment further to the acquistion of ReAssure Group plc."

Alastair Barbour
Chair of Audit Committee

04. AUDIT, RISK AND INTERNAL CONTROL CONTINUED

External audit

A key part of the role of the Audit Committee is the review and oversight of the work of the Group's External Auditor. The Audit Committee reviewed various reports from the External Auditor, including the 2019 Audit Plan, progress reports against that plan, and results report for their audit procedures on the 2019 annual IFRS and Solvency II results, and their interim review of the half year IFRS results.

The Audit Committee considered throughout 2019 the effectiveness, engagement and remuneration of the current external auditors. These activities supported the recommendation of the re-appointment of Ernst & Young ('EY'), which was approved by the Board and subsequently approved by shareholders at the May 2019 AGM – see 'Assessment of the effectiveness of the external audit process' and 'Auditor's Appointment' on page 95.

The external auditors' independence was reviewed and monitored against the Group's External Auditor policy, including their provision of non-audit services and fees – see Auditor's Independence and External Auditor Policy on page 95.

The Audit Committee has also considered matters pertaining to the mandatory rotation of the External Audit firm – see Auditor's Appointment on page 95.

Internal audit

During 2019, the Audit Committee continued to receive regular updates from the Head of Internal Audit on various internal audit related matters. This included the annual update of the Group Internal Audit Charter and the Group Internal Audit Plan which were approved and received regular reports to monitor progress against the plan. The Audit Committee also reviewed the internal audit control environment opinion which included Internal Audit's view of the risk management framework across the Group.

In line with the requirements of the Internal Audit Charter, and to maintain compliance with the Chartered Institute of Internal Auditors (CII) standards and the Financial Services CIIA Code to undertake an independent external assurance review over the effectiveness of the Internal Audit function at least once every five years, an external effectiveness assessment was undertaken by PwC. From the review PwC concluded that Internal Audit was 'An evolving function with a culture of development, which, in a period of challenge and rapid change, has set good foundations on which to build.' It had also been recognised the work being undertaken in bringing the two legacy teams together and establishing the enlarged function in a challenging year. Positive steps taken by the team in 2019 included; the definition of the Internal Audit function's target operating model, a new combined methodology, and the implementation of a new audit system (Teammate+).

Audit Committee's performance

The Committee's performance was reviewed by the Board in November 2019 as part of its overall Board Evaluation Review. The conclusions from the Evaluation Review showed that the Committee continues to operate effectively.

General

The other areas that the Audit Committee covered throughout 2019 included the following:

- Whistleblowing arrangements within the Group as well as any whistleblowing activity where an employee raised concerns, in confidence, about any possible improprieties. An update to the whistleblowing policy was approved which took into account the wider geographical presence of the Group which complied with the FCA and PRA's whistleblowing rules.
- Reviewed and approved updates to the Group Tax Policy, Group Tax Strategy, Group External Auditor Policy and the Group Liquidity & Funding Policy.

Alastair Barbour
Chair of Audit Committee

AUDITOR'S APPOINTMENT

In accordance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Audit Committee undertook a competitive audit tender in 2016 to take effect for the 2017 statutory audit, which it considered to be in the best interests of its shareholders in light of the length of association with the current auditors.

During 2019, the Audit Committee continued to review the requirements for tendering of Audit Services for the Group and its subsidiary companies. It is the Audit Committee's current intention that the Group will tender its audit services prior to 2024 reflecting the mandatory rotation timing for EY as auditor of one of the Group's major life companies.

EY has been auditor to the Company since December 2018. EY has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 15 May 2020.

The current lead audit engagement partner is Stuart Wilson, who has held the role from the 2019 statutory audit.

ASSESSMENT OF THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

The effectiveness of the external audit process is reviewed throughout the year by the Committee and included the following activities:

- The Committee reviewed the detailed audit plan and considered its coverage and approach to identified risks;
- The Committee considered the basis and calculation of Group materiality and how this was applied to individual business units;
- The quality of interactions between the Audit team and the Committee, including the provision of technical and industry knowledge, was assessed;
- The Committee considered the level of insight provided by the audit findings in the key areas of judgment, including quality of benchmarking and analysis, and the ability of the audit team to demonstrate that they had applied professional scepticism in their dealings with management;
- The results of an internal evaluation of the performance of the auditor, including respondents from the Committee, subsidiary Committees and key members of management, were reviewed; and
- The Committee considered the findings of external evaluations of EY, notably the Financial Reporting Council's Annual Quality Review.

After consideration of the findings of the 2018 effectiveness review, EY proposed enhancements to their audit approach as part of their 2019 audit plan, which have been monitored by the Committee.

AUDITOR'S INDEPENDENCE AND EXTERNAL AUDITOR POLICY

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

The engagement of EY to perform any non-audit service is subject to a process of pre-approval by the Audit Committee. Furthermore, the Group's external auditor policy prescribes a limit for fees associated with non-audit services of 70% of the average statutory audit fee for the three preceding years. This aligns with requirements introduced by the EU Audit Directive and Regulations in 2016.

In 2019, total fees of £10.7 million were paid to EY. Of this amount £6.0 million related to statutory audit fees of the parent and its subsidiaries, with a further £1.4 million incurred in relation to services provided pursuant to legal or regulatory requirements.

The remaining fees of £3.3 million are classified as non-audit services under the EU Directive and Regulations, and give rise to a non-audit to audit fee ratio of 64% within the limits prescribed in the Group's policy.

The engagement of EY to perform any non-audit service is subject to a process of pre-approval by the Audit Committee. Of the £3.3 million of non-audit fees, £1.6million related to actuarial and finance due diligence procedures conducted in relation to the proposed acquisition of ReAssure. Consistent with previous transactions, the Audit Committee concluded that the engagement of the external auditors in the performance of such diligence procedures would facilitate audit work post-completion of the transaction, and provide enhanced insight as to the quality of the control environment operated in the target company by comparison to Group standards. The remaining balance of £1.7 million relates to the provision of assurance services to the Board and the sponsoring banks in support of disclosures made in the public transaction documents relating to the acquisition. The engagement of the Group's independent external auditor for the provision of such services is consistent with market practice in transactions of this nature.

The Audit Committee noted the release in December 2019 of the Financial Reporting Council ('FRC') Revised Ethical Standard, which will become effective on 15 March 2020. In particular the Committee has noted the changes the new Standard implements with regard to permissible non-audit services. Following issuance of the Revised Standard, potential new non-audit services engagements are being monitored by reference to the revised requirements and the Group's External Auditor Policy will be updated in this regard in early 2020.

During 2019, EY reported a breach of the rules of the FRC Ethical Standards to the Audit Committee. The breach occurred as a result of the provision of prohibited tax services by EY to Aberdeen Standard Investments ('ASI') legal entities, where the benefit of those services arose in ASI managed funds that, following the acquisition of the Standard Life Assurance business, are now controlled by the Phoenix Group. In considering these matters, the Audit Committee concluded that the independence of EY was not impaired, reflecting the trivial nature of the impact of the services on the Group's financial statements, the fact that the work was undertaken by personnel who were wholly separate to the audit team, and that no reliance was placed by the audit team on the output of the services.

In light of the above, the Audit Committee is satisfied that the non-audit services performed during 2019 have not impaired the independence of EY in its role as external auditor. Further information on non-audit fees is provided in the Notes to the IFRS Consolidated Financial Statements on page 167.

04. AUDIT, RISK AND INTERNAL CONTROL CONTINUED

SIGNIFICANT MATTERS CONSIDERED BY THE AUDIT COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS

Significant matters in relation to the 2019 IFRS financial statements	How these issues were addressed
Review of the IFRS and Solvency II actuarial valuation process, to include the setting of actuarial assumptions and methodologies, and the robustness of actuarial data	Management presented papers to the Life Company Audit Committees detailing recommendations for the actuarial assumptions and methodologies to be used for the interim and year-end reporting periods with justification and benchmarking as appropriate. These assumptions and methodologies were debated and challenged by the Life Company Audit Committees, with focus on longevity, persistency and expenses, prior to their approval. A summary of these papers was presented for oversight review by the Audit Committee, and the Life Company Audit Committees' conclusions were reported to the Audit Committee through minutes of its meeting and a discussion between the Chairmen of the committees. The Audit Committee discussed, and questioned management and EY on, the content of the summary papers and the Life Company Audit Committee's conclusions. Pension assumptions for use in the IAS 19 Employee Benefits valuations were reviewed and approved by the Audit Committee prior to the finalisation of the valuation reports. The Audit Committee received and considered detailed written and verbal reporting from the external auditors setting out their observations and conclusions in respect of the assumptions, methodologies and actuarial models.
Valuation of complex and illiquid financial assets	Management presented papers setting out the basis of valuation of financial assets, including changes in methodology and assumptions, for the interim and year-end reporting periods to the Life Company Audit Committees. The assumptions, valuations and processes, particularly for financial assets determined by valuation techniques using significant non-observable inputs (Level 3), were debated and challenged by the Life Company Audit Committee prior to being approved. The valuation information was then presented for oversight review by the Audit Committee who considered and confirmed the appropriateness of the basis of valuation.
Recoverability of intangible assets	Management presented papers detailing the results of annual impairment testing carried out in respect of goodwill balances and reviews for indicators of impairment performed in respect of finite life intangibles. The Audit Committee considered the results of the work performed and confirmed the appropriateness of the conclusions reached.
Provisions	Management presented papers detailing the basis of recognition and measurement of accounting provisions recognised by the Group. The Audit Committee considered the results of the analysis performed, the uncertainties surrounding measurement adopted and confirmed the appropriateness of the conclusions reached.
Operating Profit	The Audit Committee reviewed the allocation of key items to operating profit to ensure the allocations were in line with the Group's operating profit framework and consistent with previous practice.
Assessment of whether the Annual Report and Accounts are fair, balanced and understandable	The Audit Committee considered an analysis of the processes and conclusions in support of management's conclusions that the Annual Report and Accounts are fair, balanced and understandable. As part of the year-end procedures, the Audit Committee discussed with management and EY the review processes that operated over the production of the Annual report and Accounts.
Going concern analysis	A comprehensive going concern assessment was undertaken by the Audit Committee for the 2019 year-end and 2019 interim reporting periods, based on an assessment by management of the Group's liquidity for the going concern review period together with forecasts and a stress and sensitivity analysis. The analysis also confirmed that all regulatory and working capital requirements would be met under the base case and adverse stress scenarios throughout the going concern review period.
Viability Statement	The Audit Committee reviewed the process to support, and the contents of, the Viability Statement. The Committee concluded that the period covered by the Viability Statement should continue to be five years to align it to the Group's strategic plan.

RISK COMMITTEE
REPORT

Members

John Pollock (Chair)

Alastair Barbour

Wendy Mayall

Belinda Richards

Kory Sorenson (from 2 July 2019)

KEY RISK COMMITTEE ACTIVITIES IN 2019

- Considered regular updates on the Risk Management Framework
- Evaluated and considered the proposed acquisition of ReAssure Group plc
- Review of the Operational Resilience framework
- Monitored Group's Risk Appetite
- Continued to review the Group's Risk Profile and principle Risk Policies.
- - Reviewed the Group's Annual Own Risk and Solvency Assessment Report

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

The performance of the Committee during 2019 was assessed as part of both an overall internal annual Board effectiveness review and a Committee-specific effectiveness review. The conclusions demonstrate that the Committee continues to operate effectively.

Details of the Risk Management Framework ('RMF'), for which the Risk Committee has oversight, are provided in the Risk Management section on pages 48 to 57.

RISK COMMITTEE'S ROLE

- The Committee is comprised of five Independent Non-Executive Directors.
- A set of 'Operating Principles' are in place to define the responsibilities and accountabilities of the Risk Committees of Phoenix Group and its subsidiary company boards to avoid any overlap of focus or assurance activity.
- The Committee's meetings are attended by the Chair of the Audit Committee, Alastair Barbour, which allows the review of internal control effectiveness to be managed through collaborative working and oversight.
- The Chairman of the Phoenix Life and Standard Life Risk Committees and Model Governance Committee, John Lister, is a regular attendee to the Committee and provides members with a regular update on the risk matters pertinent to these key subsidiaries and the matters being dealt with at the Model Governance Committee (which is a Board Committee of the Group's Life Companies).
- The Chairman of the Phoenix Life and Standard Life Investment Committees, Nick Poyntz-Wright, also periodically attends the Committee meetings to provide key updates which helps to facilitate discussions relating to investment risk.
- Other regular attendees to the Committee include the Group Chief Actuary, Deputy Group Finance Director, the Chief Executives of the subsidiary Life Company boards, the Group General Counsel and the Group Head of Internal Audit.
- The Committee met a total of seven times in 2019 including one out of cycle meeting by telephone.
- A briefing session was held to review Brexit Impact planning and interest rate risk management.
- The Chief Risk Officer, Jonathan Pears, has full access to the Chair and the Committee and attends all meetings.
- The Committee receives frequent reporting from the Chief Risk Officer and the Group Risk function on consolidated risk matters affecting the Group including risk profile assessments and emerging risks.

SIGNIFICANT MATTERS DISCUSSED IN 2019

ReAssure Group plc Acquisition

- The Committee considered and evaluated the proposed acquisition of ReAssure Group plc and provided a recommendation to the Board. The recommendation was based on the assessment of the strategic risk and financial resilience of the enlarged Group; the impact on the risk appetite and risk profile of the Group; and operational resilience including the proposed operating model.

04. AUDIT, RISK AND INTERNAL CONTROL CONTINUED

Brexit Planning

- During the year the Committee monitored the ongoing Brexit negotiations between the United Kingdom and the European Union and reviewed the Group's operational readiness ahead of the UK departure on 31 January 2020.

Transformation of the Heritage and Open business platforms and operating model

- The Committee reviewed the key risks and actions associated with the material expansion of the Phoenix outsource arrangement and delivery of the proposed Transformation Programme.

Operational Resilience

- The Committee's key focus during the year has been to enhance the existing operational resilience framework to strengthen the control environment.

Financial Risks of Climate Change

- Following the PRA's publications in April 2019 regarding "insurers' approach in managing the financial risks from Climate Change", the Committee has considered the impact and taken a number of actions to implement the Regulator's requirements. In addition the Committee reviewed the results of the Climate Change Scenario Stress Tests which were required as part of the PRA's Insurance Stress Test Exercise.
- Consideration of the annual ORSA Report for the Group and its regulated subsidiaries. The committee rocommended the ORSA Report for approval by the Board.

Risk Management Framework Harmonisation

- The Committee continued to review the progress of the implementation of the harmonised RMF approach across the Group.

RISK COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2019

In addition to the significant matters discussed in 2019, the Committee also:

- Reviewed adherence to the Group Risk Management Framework and considered the appropriateness of the Group's overall Risk Appetite Statements.
- Monitored progress against the 2019 Group Risk function plan.
- Approved the Group Market Risk Appetite Targets.
- Considered the Group's capital risk appetite framework.
- Monitored compliance with the Group's principal risk policies, satisfying itself that action plans to address significant breaches of those policies were sufficient.
- Reviewed the Group's risk profile, monitoring it against the risk categories of Market, Insurance, Credit, Financial Soundness, Customer and Operational with particular attention to risk appetite, risk trends, risk concentrations, provisions, experience against budget and key performance indicators for risk as well as contingency planning.
- Reviewed the operation of the Risk Management Framework.
- Considered risks, issues and matters that are escalated from the Phoenix Life Risk Committee.
- Received regular updates on Cyber Security.
- Reviewed Reverse Stress Testing analysis, completed and provided oversight of, and challenge to, the design and execution of the Group's stress and scenario testing, including any changes of assumptions.
- Informed the Remuneration Committee regarding the management of the Group's material risks to support their consideration of executives' Annual Incentive Plan rewards.

REVIEW OF SYSTEM OF INTERNAL CONTROLS

The Board has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness in accordance with the Code. The Group's systems of internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board (and its subsidiary company boards) monitor internal controls on a continual basis, in particular through the Audit and Risk Committees, which draw upon input from all three lines of defence. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period covered by this report and up to the date of approval of the Annual Report and Accounts for 2019, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council. The assessment for 2019 was presented to the Board, following review by both Audit and Risk Committees, on 6 March 2020. Where any significant weaknesses were identified, corrective actions have been taken, or are being taken and monitored by both the business and the Committees accordingly.

"

During the year the Committee considered a range of risks facing the Group which included the impact of Brexit and the acquisition of ReAssure Group plc. The Committee will continue to review and enhance key areas such as operational resilience and climate change risk."

John Pollock
Chair of Risk Committee

DIRECTORS' REMUNERATION REPORT
REMUNERATION COMMITTEE CHAIR'S LETTER

Members

Kory Sorenson (Chair)

Karen Green

Belinda Richards (from 2 July 2019)

Nicholas Shott

DEAR SHAREHOLDER
On behalf of the Board and its Remuneration Committee ('Committee'), I am pleased to present the Directors' Remuneration Report ('DRR') for the year ended 31 December 2019. This report is subject to two shareholder votes at the 2020 Annual General Meeting 'AGM':

- An advisory vote on the implementation in 2019 of the existing Directors' Remuneration Policy
- A binding vote on the proposed Directors' Remuneration Policy which, if approved, will apply from the date of the AGM for up to three years.

SUMMARY OF THE YEAR
2019 was a momentous year for Phoenix, with entry into the FTSE 100 in March, strong progress made in the Standard Life Assurance ('SLA') transition programme and the anticipated synergies throughout the year, and the announcement of our acquisition of ReAssure Group plc in December. These highlights were achieved while exceeding all 2019 financial targets, integrating 3,500 new colleagues and continuing to focus on our mission to inspire confidence in the future, improve outcomes for customers and deliver value for shareholders.

The Remuneration Committee's principal activities in the year were:

- The triennial remuneration policy review reflecting the 2018 Corporate Governance Code and developments in best practice.
- A review of wider workforce policies in light of the integration of the SLA business.
- Regular monitoring of financial and non-financial outcomes against 2019 targets in the context of business strategy and risk appetite.
- Approving remuneration packages associated with the two Executive Director changes.

BOARD CHANGES (FURTHER INFORMATION ON PAGES 122 TO 124)
As we enter 2020, the Board is delighted to welcome Andy Briggs as Group Chief Executive Officer ('CEO') designate from January 2020, and as CEO from 10 March 2020. His wealth of experience will be invaluable to the Group as it continues the integration of the SLA business and progresses its long-term growth strategy.

Andy has over 30 years of insurance industry leadership experience including as the CEO of a public limited company, former Chairman of the ABI, and the Government Business Champion for Older Workers.

Andy will be remunerated in line with our current and proposed Remuneration Policies. He will receive:

- an annual base salary of £800,000;
- a maximum bonus of 150% of base salary;
- a face value Long-Term Incentive Plan ('LTIP') grant of 275% of base salary;
- a cash payment in lieu of pension contribution of 12% of base salary (10.5% when taken as a cash payment in lieu), in line with the Directors' Remuneration Policy approved at the 2019 AGM to align Executive Director pensions with the wider workforce; and
- benefits in accordance with our Directors' Remuneration Policy which will be reported in the single figure table each year.

In addition, the Company will award Phoenix shares to the equivalent value to the forfeited in-flight awards granted by his former employer in March 2017 and May 2018, pro-rated to the end of his former employment. The buy-out award will vest subject to the achievement of the former employer's original published performance targets. The vesting date will be as soon as practicable following verification of the level of vesting achieved.

REMUNERATION CONTINUED

The Committee approved a remuneration package for Andy in line with the highly competitive market for talent in our specialist area of financial services and quality of the candidate. Given there has been no change to any element of the remuneration package for the outgoing CEO since his arrival in 2011, the higher package offered reflects the increased size and complexity of Phoenix Group and is commensurate with the deep experience and expertise that Andy will bring to Phoenix in both the Open and Heritage businesses.

As per the announcement on 9 March 2020, the Committee also warmly welcomes Rakesh Thakrar to the Board as Group Chief Financial Officer ('CFO'), subject to regulatory approval. The Committee is delighted with this appointment as a reflection of succession planning within the Group, enabling this promotion from within the organisation.

The new CFO will be appointed on a remuneration package consisting of:

- an annual base salary of £420,000;
- a maximum bonus of 150% of base salary;
- a face value LTIP grant of 200% of base salary;
- a pension contribution of 12% of base salary (10.5% if taken as a cash payment in lieu);
- benefits in accordance with our Directors' Remuneration Policy which will be reported in the single figure table each year.

In November, we announced that Clive Bannister would step down as CEO following the publication of our 2019 full year results, after nine very successful years with the business. His departure arrangements will be in line with the remuneration policy.

Clive will leave Phoenix on 9 March 2020. He will receive pay in lieu of notice for the period starting on this date and ending on 7 November 2020, comprising salary, pension allowance and insurance benefits. He will receive no compensation for loss of car allowance. Clive's 2019 AIP will be paid in the normal way and subject to 40% deferral in line with the current policy. Clive will be eligible for a 2020 AIP award for the portion of the year in which he remains employed by the Group, which will be payable in March 2021 and subject to 50% deferral in line with the proposed policy. Clive's in-flight LTIP awards will be pro-rated to his end date.

Jim McConville will leave Phoenix on 15 May 2020. His departure arrangements will be in line with the remuneration policy. He will receive pay in lieu of notice for the period starting on this date and ending on 9 March 2021, comprising salary, pension allowance and insurance benefits. He will receive no compensation for loss of car allowance. Jim's 2019 AIP will be paid in the normal way and subject to 40% deferral in line with the current policy. Jim will be eligible for a 2020 AIP award for the portion of the year in which he remains employed by the Group, which will be payable in March 2021 and subject to 50% deferral in line with the proposed policy. Jim's in-flight LTIP awards will be pro-rated to his end date.

Phoenix has advanced greatly during the mandates of Clive and Jim in terms of performance for shareholders, customers and employees alike. We are grateful to both Clive and Jim for their contributions.

TRIENNIAL REMUNERATION POLICY FOR APPROVAL IN 2020 (FURTHER INFORMATION ON PAGES 108 TO 113)

The Remuneration Policy was submitted to shareholders in 2019 due to the establishment of a new parent company. This was largely a roll forward of the previously approved Policy, with the exception of two changes in recognition of the 2018 UK Corporate Governance Code: alignment of pension contributions for new Executive Directors with those provided to the wider workforce, and the introduction of post-cessation shareholding requirement for both new and current Executive Directors.

In 2019, the Committee conducted the full triennial review of our remuneration policy in respect of its alignment to the Company's strategy, the provisions of the 2018 UK Corporate Governance Code and emerging best practice. Since the Committee's last full review of the Remuneration Policy in 2017, the business has fundamentally changed, including:

- entry into the FTSE100; and
- the addition of a significant Open business.

As part of the acquisition of the SLA businesses, Phoenix gained:

- Additional assets under management of £166 billion, an increase of 225%.
- 4.8 million additional policyholders, increasing our policyholder total by 86%.
- 3,350 additional employees, increasing our employee base by 375%.
- Additional cash generation of £5.5 billion, an increase of 87% on pre-acquisition expectations.

After thorough review, the Committee determined that the base structure of the policy remains appropriate in motivating and encouraging positive behaviours in line with our mission to improve outcomes for customers and deliver value for shareholders. However, the change to the overall business merited certain changes to the variable pay plans to ensure it is relevant to all employees across the business.

ANNUAL INCENTIVE PLAN ('AIP')

The first change is to add a new metric to the AIP, Net Flows (Workplace), to reflect the increased significance of the Open business following the acquisition of the SLA businesses. Net Flows (Workplace) replaces the previous Management Actions metric, and will function in a transparent and robust manner. See page 123 for further details.

The second change is in relation to the Personal element of the AIP. Previously 20% of AIP for Executive Directors was linked to their personal objectives. To provide greater transparency and better linkage with the Group's strategic priorities and wider workforce, a new Strategic Scorecard reflecting core strategic priorities will replace the Personal element. These targets will be clearly articulated and measured, whilst avoiding duplication with any outcomes under the Corporate element. The targets for this Strategic Scorecard, which will include Environmental Social Governance ('ESG') metrics, will be disclosed retrospectively in the 2020 DRR consistent with current practice for the personal element.

Annual incentive plan

2019	Operating Companies' Cash Generation **24%**	Adjusted Shareholder Solvency II Own funds **24%**	Solvency II Management Actions **12%**	Customer Experience **20%**	Personal **20%**	Deferral 40% for a period of 3 years
2020	Cash Generation* **24%**	Shareholder Value* **24%**	Net Flows (Workplace) **12%**	Customer Experience **20%**	Strategic Scorecard **20%**	Deferral 50% for a period of 3 years

Corporate Component – 80% of AIP metrics

Long term incentive plan

2019	Cumulative Cash Generation **40%**	Return on Adjusted Shareholder Solvency II Own Funds **35%**	TSR **25%**	
2020	Net Operating Cash Receipts* **35%**	Return on Shareholder value* **25%**	TSR **20%**	Persistency **20%**

*These metrics have been renamed simply to provide clarity. The calculations for these remain unchanged from last year.

The third change is an increase in deferral from 40% to 50% in order to further increase the level of alignment between the Executive Directors and shareholders, reflecting best practice within the FTSE 100 index.

The metrics and weighting for the 2020 AIP are shown below, with the 2019 metrics included for clarity.

LONG-TERM INCENTIVE PLAN ('LTIP')

The key change to the LTIP is the addition of a Persistency metric to reflect the Open business, similar to our approach with the AIP. Persistency is a key metric for the Group's long term strategy as it measures long term customer retention. Persistency will have a weighting of 20% of the award. The existing measures which have been renamed for clarity (Net Operating Cash Receipts, Return on Shareholder Value, Total Shareholder Return ('TSR') remain in place, with a slight reduction in their weighting to accommodate the new metric, as set out in the chart above.

OTHER CHANGES

Share Ownership Guidelines ('SOG') – The requirement for the Executive Directors' SOG is increased from 200% of salary to 300% of salary for the CEO and to 250% of salary for the CFO. Unvested deferred bonus shares (net of tax) that are no longer subject to performance conditions will be included within shares counting towards the SOG. The Post Cessation Shareholding Requirement will align with in-employment SOG for a period of two years after departure.

Pension – Following the departure of Clive Bannister and Jim McConville, pension contributions have been aligned to the wider workforce (currently 12% of base salary) in line with our new Policy. This applies to both Executive Directors being proposed for election at the Company's AGM on 15 May 2020.

Benefits – The maximum level of reimbursed expenses under the Relocation Policy is reduced to £50,000.

INCENTIVE OUTCOMES FOR 2019 (FURTHER INFORMATION ON PAGES 115 TO 118)

For the 2019 AIP, the Committee determined that Clive Bannister and Jim McConville should receive 92.3% and 87.3% of their maximum bonus opportunity, respectively.

The 2017 LTIP award covering the years 2017–2019 will vest at 68.5% of the maximum opportunity for both Clive Bannister and Jim McConville.

These outcomes reflect the strategic achievements of the year in terms of financial, non-financial, and personal contributions.

The resulting single total figure of remuneration for Clive Bannister was £2,976k and for Jim McConville was £1,843k.

LOOKING FORWARD

Many of our shareholders provided valuable feedback during the consultation on our triennial remuneration policy review and I thank them for their contribution. I look forward to continuing our dialogue in 2020.

Yours sincerely,

Kory Sorenson
Remuneration Committee Chair
6 March 2020

DIRECTORS' REMUNERATION REPORT AT A GLANCE

ALIGNMENT TO STRATEGY

This diagram demonstrates how each of our performance measures for AIP and LTIP align with the Company's strategy.

As detailed in the strategy section of the 2018 Annual Report and Accounts under the 'Engage Colleagues' section, a common incentive plan was launched for all colleagues within the enlarged Group, ensuring consistency of corporate goals and individual performance management.

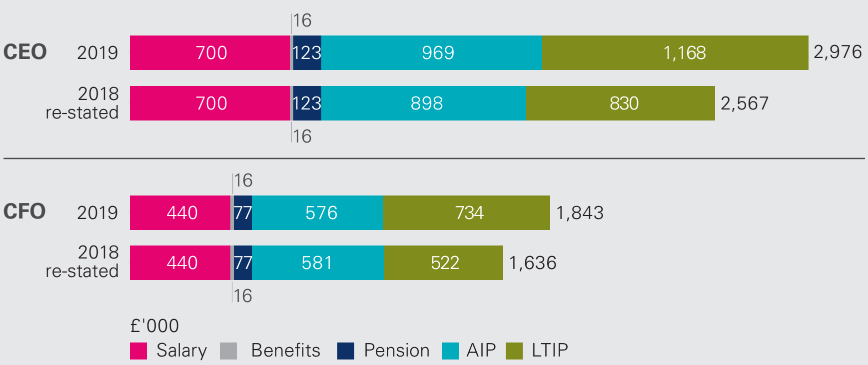
		Phoenix's Strategic KPIs: Improve Customer Outcomes	Drive Value	Manage Capital	Engage Colleagues
AIP	Cash Generation		✔	✔	
	Shareholder Value		✔	✔	
	Net Flows (Workplace Pensions)	✔	✔	✔	✔
	Customer Experience	✔	✔		
	Strategic Scorecard	✔	✔	✔	
LTIP	Net Operating Cash Receipts		✔	✔	
	Return on Shareholder Value		✔	✔	
	Persistency	✔	✔		
	TSR		✔		

✔ – AIP scorecard engages employees across the Group to achieve common targets

2019 SINGLE FIGURE

The outcomes under the AIP and LTIP resulted in a single figure outcome for Clive Bannister of £2,976k and for James McConville of £1,843k.

Read more on page 114



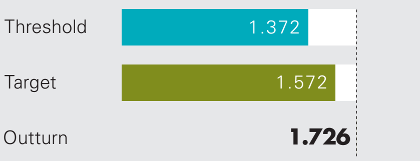
HOW WE PERFORMED IN 2019

Group performance measures

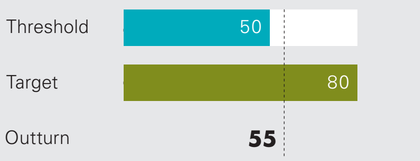
Long Term Incentive Plan ('LTIP'):

Below we show outturn against the measures which applied for the 2017 LTIP awards which are reflected in the Single Figure Table on page 114. Cumulative cash generation and TSR performance are shown over the three-year performance period (financial years 2017, 2018 and 2019). TSR is measured against the constituents of the FTSE 250 (excluding Investment Trusts), with median being the 50th percentile and upper quintile being the 80th percentile. Cash generation continues to be one of our key corporate strategic objectives, while TSR provides a direct linkage to shareholder interests.

Cumulative Cash Generation (£bn)



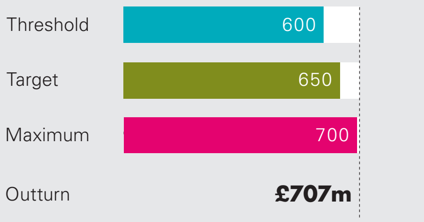
Total Shareholder Return (percentile)



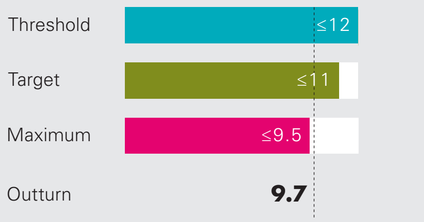
HOW WE PERFORMED IN 2019
Group performance measures
Annual Incentive Plan ('AIP'):

Below we show the target ranges and outturn against the metrics within the 2019 AIP. More details of the 2019 AIP can be found on page 115. AIP metrics that are stated Group KPIs are flagged below and evidences the direct link between Group strategy and remuneration outcomes. Those metrics that are not stated KPIs were felt by the Committee to be appropriate metrics which are reflective of the shareholder experience.

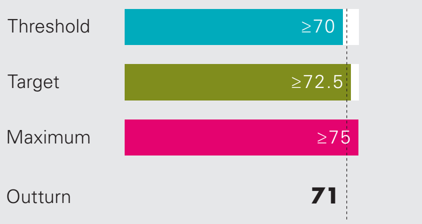
Operating Companies Cash Generation (£m) KPI



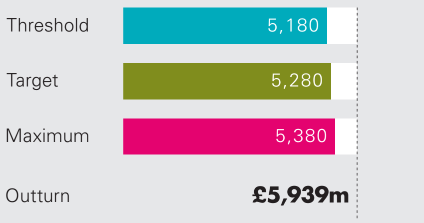
Origo Timescales (days) KPI



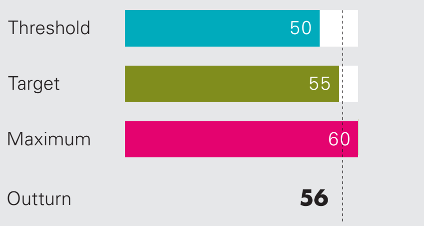
Customer Service and Accessibility (Standard Life Assurance Limited) (%) KPI



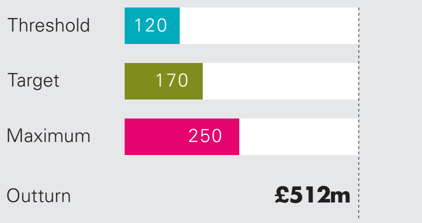
Adjusted Shareholder Solvency II Own Funds (£m)



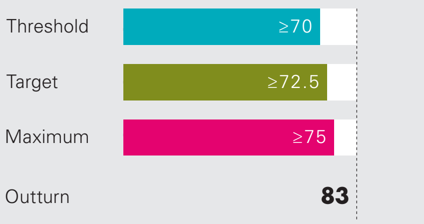
Servicing Complaints (%)



Solvency II Management Actions (£m)

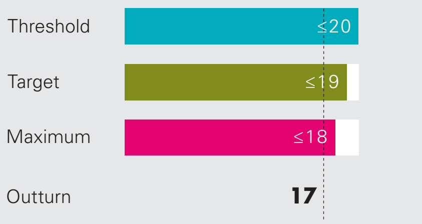


Cat. B Incident Closures (Phoenix Life) (%)



Customer Satisfaction (Phoenix Life) (%) KPI

FOS Overturn Rate (%)[1]



1 See note 6 on page 115 for detail of the FOS Overturn Rate used in the AIP.

SHAREHOLDING GUIDELINES ('SOGS')

A significant proportion of executive remuneration is delivered in shares which are released over a period of five years. In combination with our shareholding guidelines, this aligns Executive Directors with shareholders over the long-term. As at 31 December 2019, both Clive Bannister and James McConville had exceeded their shareholding requirements, as set out in the chart below. Further details on shareholding guidelines are included in the Remuneration Policy in Section A under the Shareholding Guidelines section on page 110 and in Section B on page 125.

Group Chief Executive Officer **Clive Bannister**	Shareholding guidelines	200%
	Shares held at 31 December 2019	1,081%
Group Finance Director **James McConville**	Shareholding guidelines	200%
	Shares held at 31 December 2019	597%

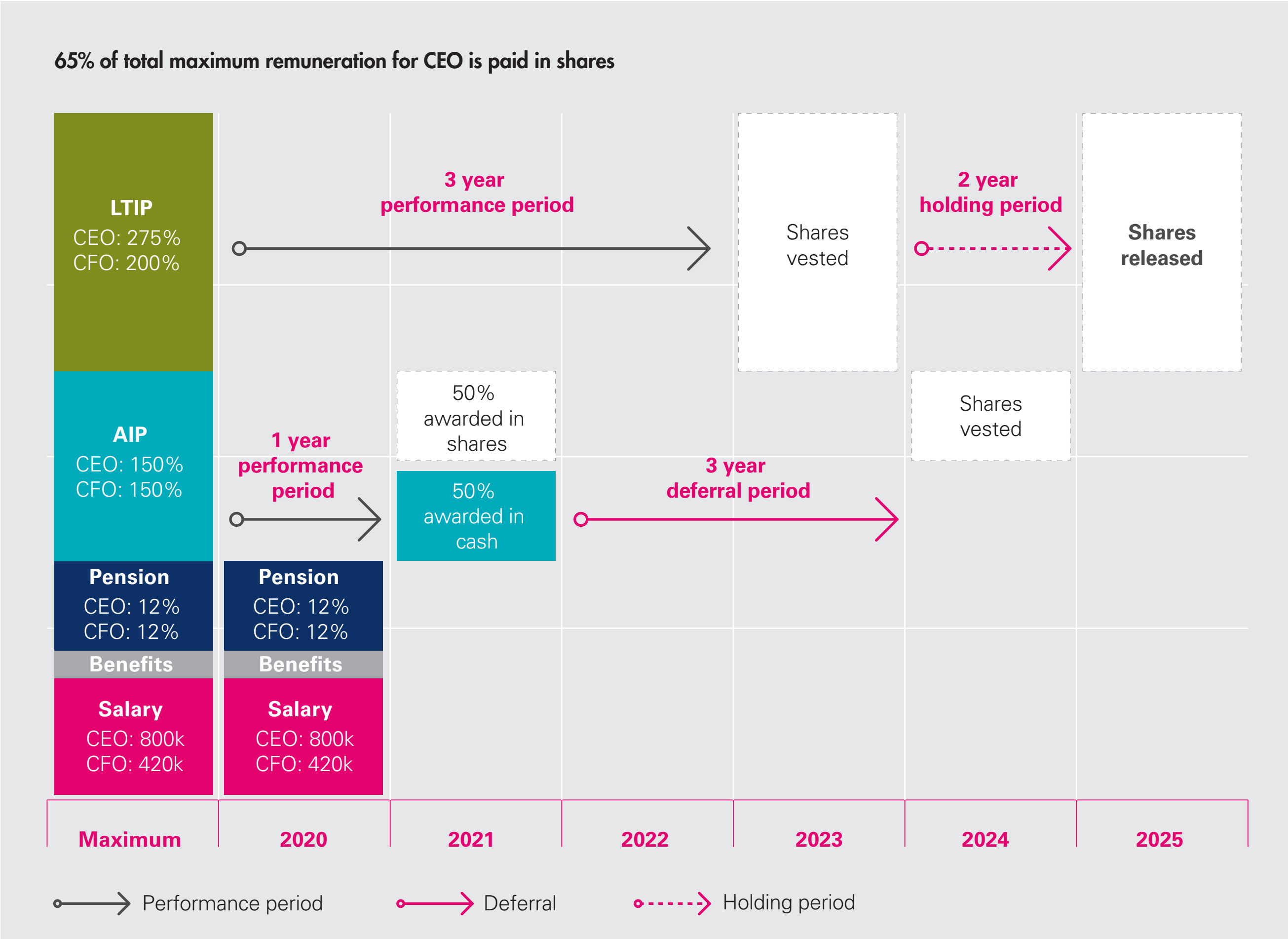
COMPARISON OF CURRENT AND PROPOSED REMUNERATION POLICY

	Element of policy	Current Policy		Proposed Policy
Fixed Remuneration	**Base Salary**	Base salaries reviewed against comparator groups, including the FTSE31-100 and FTSE250, with changes taking effect from 1 January. Executive Director salaries may not exceed £780,000 adjusted for inflation since 2017 (currently £834,000).		Base salaries are reviewed against comparator groups which the Remuneration Committee deems suitable with changes taking effect from 1 April. The salary of an Executive Director may not exceed the average median positioning within these groups adjusted for inflation.
	Pension	New Executive Directors aligned with wider workforce. Contribution rate to be disclosed following review of company pension provision.		New Executive Directors aligned with wider workforce (12% of salary – or 10.5% of salary when taken as a cash payment).
	Benefits	Relocation expenses subject to a maximum limit of £150,000.		Relocation expenses subject to a maximum limit of £50,000.
Variable Remuneration	**Annual Incentive Plan ('AIP')**	Deferral of 40% for a period of three years. Financial performance measures will not be reduced below 50% of potential. 2019 performance measures:		Deferral of 50% for a period of three years. Financial performance measures will not be reduced below 60% of potential. 2020 performance measures:
		• Operating Companies' Cash Generation (24% of overall AIP);	>	• Cash Generation[1] (24% of overall AIP);
		• Adjusted Shareholder Solvency II Own Funds (24%);	>	• Shareholder Value[1] (24%);
		• Solvency II Management Actions (12%);		• Net Flows (Workplace) (12%);
		• Customer Experience (20%); and	>	• Customer Experience (20%); and
		• Personal (20%).		• Strategic Scorecard (20%).
	Long Term Incentive Plan ('LTIP')	2019 performance measures:		2020 performance measures:
		• Cumulative Cash Generation (40%);	>	• Net Operating Cash Receipts[1] (35%);
		• Return on Adjusted Shareholder Solvency II Own Funds (35%); and	>	• Return on Shareholder Value[1] (25%);
		• Total Shareholder Return (35%).	>	• Total Shareholder Return (20%); and
				• Persistency (20%).
Other elements	**Shareholding guidelines**	Executive Directors are expected to retain all shares which vest under the DBSS and the LTIP until a minimum holding of 200% of base salary is accumulated. Share awards do not count prior to vesting (including DBSS awards). Post cessation of employment, Executive Directors retain the full requirement in the first year and half in the second year.		Executive Directors are expected to retain all shares which vest under the DBSS and the LTIP until a minimum holding of 300%/250% of base salary for CEO/CFO is accumulated. Unvested share awards no longer subject to performance conditions (discounted for anticipated tax liabilities), may be counted for the purposes of the guidelines. Post cessation of employment, Executive Directors are expected to retain this minimum level, or the level held at termination, for a period of two years.

1 These metrics have been renamed simply to provide clarity. The calculations for these remain unchanged from last year. Shareholder Value represents shareholder Solvency II own funds adjusted to remove the Group's capital qualifying sub-debt.

ALIGNMENT TO SHAREHOLDERS

Our Executive remuneration is designed to align with shareholder interests to deliver long-term sustainable value. The diagram below shows how a significant portion of Executive remuneration under the proposed remuneration policy is delivered in shares and deferred for up to five years. At face value, 65% of the CEO's maximum remuneration is delivered in shares.



INTRODUCTION

This report contains the material required to be set out as the Directors' Remuneration Report ('Remuneration Report') for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the DRR regulations').

DIRECTORS' REMUNERATION POLICY

The Company is seeking approval from its shareholders at its 2020 AGM for its updated Directors' Remuneration Policy ('Remuneration Policy').

The Remuneration Policy which is being put forward for approval by shareholders of Phoenix Group Holdings plc at the 2020 AGM has been updated as described in the Chairman's covering letter. The Remuneration Policy is set out in section A of this report overleaf.

SECTION A

THIS SECTION CONTAINS THE DIRECTORS' REMUNERATION POLICY AS PROPOSED FOR APPROVAL BY THE COMPANY'S SHAREHOLDERS AT THE COMPANY'S 2020 AGM ON 15 MAY 2020.

GENERAL POLICY

The Remuneration Policy for Executive Directors is summarised in the table below along with the policy on the Chairman's and the Non-Executive Directors' fees.

Overall positioning*

The Company's overall positioning on remuneration for Executive Directors has been updated to reflect the provisions of the new UK Corporate Governance Code, best practice and feedback received from shareholders during consultation.

An appropriate balance is maintained between fixed and variable components of remuneration.

Our updated Remuneration Policy benchmarks the total target remuneration for the Executive Directors using appropriate market data sets.

* This section does not form part of the Remuneration Policy and is for information only.

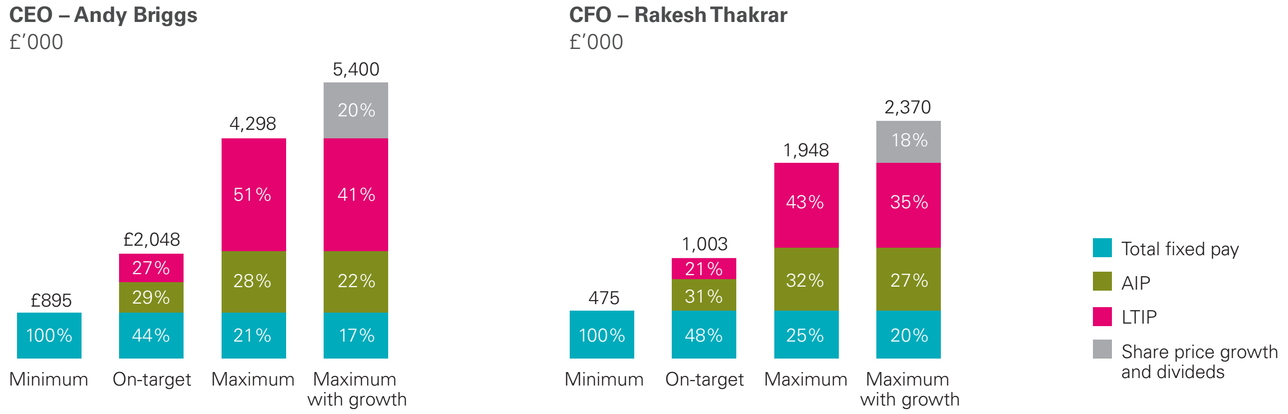
HOW OUR POLICY ADDRESSES THE FOLLOWING FACTORS SET OUT IN THE UK CORPORATE GOVERNANCE CODE 2018

Factor	How this has been addressed
Clarity & Simplicity	• The reward framework seeks to embed simplicity and transparency in the design and delivery of remuneration. We have proposed changes to our AIP performance measures (to replace the Personal Performance assessment with a Strategic Scorecard with transparent, measurable metrics, and to replace Management Actions with Net Flows (Workplace)) in order to simplify the AIP assessment process while enhancing alignment to Group strategy. • We have included additional diagrams and charts in this year's Remuneration Report to improve clarity for readers regarding the alignment of Executive remuneration with shareholders and our strategy.
Risk	• The Committee undertakes an annual review of risk before confirming the outcomes for the AIP to ensure that there are no risk-related concerns that require the moderation of AIP outcomes. • Malus and clawback operate in respect of the AIP and LTIPs (see page 111 for details on trigger events). • The Committee may apply discretion to override formulaic outcomes if they are considered inconsistent with the underlying performance of the Group.
Predictability	• The range of potential award levels to individual Executive Directors are set out in the scenario chart on page 107 which also demonstrates the impact of potential share price growth by 50% over the three-year performance period until LTIP vesting.
Proportionality	• A high percentage of rewards are delivered in the form of shares, meaning Executive Directors are strongly aligned with shareholders. We have increased the share ownership guidelines to 300% for the CEO and 250% for the CFO and introduced a post-employment shareholding requirement for our Executive Directors to ensure that they are aligned to the long-term performance of the Group.
	• Executive Directors are required to hold shares from LTIP awards for two years following vesting which provides focus on sustainable share price growth. We have also extended deferral levels under the AIP to further align to shareholders.
Alignment to culture	• We have engaged with our employees through our Colleague Insight Survey and Employee Networks (see further details on pages 36 and 84) to develop our values and to improve our understanding of what is required to become a high-performing organisation. Our remuneration philosophy supports our purpose and core values.

POTENTIAL REWARDS UNDER VARIOUS SCENARIOS (£000)

The charts below compare the maximum levels of Total Remuneration payable under the Directors' Remuneration Policy (see page 108).

Total remuneration opportunity (£000)



Minimum, on-target and maximum represent the scenario charts required under the Directors' Remuneration Policy – see the data assumptions below.

'Maximum with growth' is the maximum scenario, but with the LTIP element increased to reflect a 50% share price growth assumption over the three-year period until LTIP vesting. The element of the total representing the value from these assumptions on share price growth and dividends is shown separately.

Name	Base salary £000	Benefits £000	Pension £000	Total fixed £000
Andy Briggs	800	11	84	895
Rakesh Thakrar (proposed director)	420	11	44	475

Minimum	Consists of base salary, benefits and pension: • Base salary is the salary to be paid in 2020. • Benefits measured as benefits to be paid in 2020. • Pension measured as the full entitlement of approximately 10.5% of base salary receivable (after the reduction to payments made in cash for employers' National Insurance Contributions).
On-target	Based on what the Executive Director would receive if performance was on-target: • AIP: consists of the on-target annual incentive (75% of base salary). • LTIP: consists of the threshold level of vesting (50% of base salary, 68.75% for Andy Briggs). In addition, the potential value of Sharesave and Share Incentive Plan ('SIP') participation is also recognised.
Maximum	Based on the maximum remuneration receivable: • AIP: consists of the maximum annual incentive (150% of base salary). • LTIP: assumes maximum vesting of awards and valued as on the date of grant (award of 200% of base salary for CFO and 275% of base salary for CEO. Sharesave and SIP valued on the same basis as in the on-target row.

REMUNERATION POLICY TABLE

Element and purpose in supporting strategic objectives

Base Salary

This is the core element of pay which supports the recruitment and retention of Executive Directors and reflects the individual's role and position within the Group as well as their capability and contribution

Policy and operation

- Base salaries are reviewed each year against companies of similar size and complexity. Both salary levels and overall remuneration are set by reference to the median data of comparators which the Remuneration Committee considers to be suitable based on index, size and sector.
- The Remuneration Committee uses this data as a key reference point in considering the appropriate level of salary. Other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities, and the level of salary increases awarded to other employees of the Group are also considered.
- Base salary is paid monthly in cash.
- Changes to base salaries normally take effect from 1 April.

Maximum

- Salary levels are specific to the role and individual.
- Maximum salary will be the median level of salaries for CEO's in the FTSE31-100 (currently £800,000), provided that this figure may be increased in line with UK RPI inflation for the duration of this policy.
- However, when reviewing salaries for Executive Directors, the Remuneration Committee will also review the salaries, and salary increases, for senior management and employees in relevant countries to maintain consistency. Percentage increases for Executive Directors will not exceed that of the broader employee population, other than in specific circumstances identified by the Remuneration Committee (e.g. in response to a substantial change in responsibilities).

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Benefits

To provide other benefits valued by recipient

Policy and operation

- The Group provides market competitive benefits in kind. Details of the benefits provided in each year will be set out in the Implementation Report. The Remuneration Committee reserves discretion to introduce new benefits where it concludes that it is in the interests of the Group to do so, having regard to the particular circumstances and to market practice.
- Where appropriate, the Group will meet certain costs relating to Executive Director relocations and other exceptional expenses.

Maximum

- It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will normally operate within an annual limit of 10% of an Executive Director's base salary.
- The Remuneration Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Remuneration Committee considers to be appropriate in all the circumstances.
- Relocation expenses are subject to a maximum limit of £50,000.

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Pension

To provide retirement benefits which keep Phoenix Group competitive within the marketplace and provide for the future of our employees

Policy and operation

- The Group provides a competitive employer sponsored defined contribution pension plan.
- All Executive Directors are eligible to participate in the Defined Pension Contribution plan available to all new joiners or they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits. Any such cash payments are reduced for the effect of employers' National Insurance Contributions.
- Phoenix will honour the pensions obligations entered into under all previous policies in accordance with the terms of such obligations.

Maximum

- Pension contributions for Executive Directors are aligned with the wider workforce rate which is currently 12% of salary (reduced to 10.5% when taken as cash in lieu of contribution).

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Annual Incentive Plan ('AIP') and Deferred Bonus Share Scheme ('DBSS')

To motivate employees and incentivise delivery of annual performance targets aligned to strategy

Policy and operation

- AIP levels and the appropriateness of measures are reviewed annually to ensure they continue to support the Group's strategy.
- AIP outcomes are paid in cash in one tranche (less the deferred share award).
- At least 50% of any annual AIP award is to be deferred into shares for a period of three years although the Remuneration Committee reserves discretion to alter the current practice of deferral (whether by altering the portion deferred, the period of deferral or whether amounts are deferred into cash or shares). Such alterations may be required to ensure compliance with regulatory guidelines for pay within the insurance sector, but will not otherwise reduce the current deferral level or the period of deferral.
- Deferral of AIP outcomes into shares is currently made under the DBSS.
- Awards under DBSS will be in the form of awards to receive shares for nil-cost (with the shares either being delivered automatically at vesting or being delivered at a time following vesting at the individual's choice).
- DBSS awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The three-year period of deferral will run to the third anniversary of the award date.
- Dividend entitlements will accrue over the three-year deferral period and be delivered as additional vesting shares.
- Malus/clawback provisions apply to the AIP and to amounts deferred under DBSS as explained in the notes to this table.

Maximum

- The maximum annual incentive level for an Executive Director is 150% of base salary per annum.

Performance measures

- The performance measures applied to AIP will be set by the Remuneration Committee and may be financial or non-financial and corporate, divisional or individual and in such proportions as it considers appropriate. However, the weighting of financial performance measures will not be reduced below 60% of total AIP potential in any year for the duration of this policy.
- In respect of the financial and non-financial performance measures, attaining the threshold performance level produces a £nil annual incentive payment.
- On-target performance on all measures produces an outcome of 50% of maximum annual incentive opportunity. However, the Remuneration Committee reserves the right to adjust the threshold and target levels for future financial years in light of competitive practice.

- The AIP operates subject to three levels of moderation:
  i. The Committee seeks to set suitable ranges for each measure in the context both of the Group's own internal budgets and of external projections (whether through management guidance or consensus forecasts). Recognising that the business of the Group is to engage in corporate activity, the Remuneration Committee may adjust targets during the year to take account of such activity and ensure the targets continue to reflect performance as originally intended.

  ii. There is a specific adjustment factor of 80%–120% of the provisional outturn whereby the Remuneration Committee may adjust the provisional figure (but subject to any over-riding cap) to take account of its broad assessment of performance both against pre-set targets, risk considerations, and more generally, of the wider universe of stakeholders. With respect to financial performance measures, this assessment will include consideration of the quality of how particular outcomes were achieved.

The AIP remains a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the outturn (from zero to any cap) should it consider that to be appropriate. In particular, the Remuneration Committee may operate this discretion in respect of any risk concern.

Element and purpose in supporting strategic objectives

Long-Term Incentive Plan ('LTIP')

To motivate and incentivise delivery of sustained performance over the long-term in line with our strategy and purpose, and to promote alignment with shareholders' interests, the Group operates the Phoenix Group Holdings plc LTIP.

Policy and operation

- Awards under the LTIP may be in any of the forms of awards to receive shares for nil-cost (as described for DBSS above).
- LTIP awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The vesting period will be at least three years and run until the third anniversary of the award date (unless a longer vesting period is introduced).
- A holding period will apply so that Executive Directors may not normally exercise vested LTIP awards until the fifth anniversary of the award date.
- Dividend entitlements will accrue until the end of the holding period in respect of performance vested shares and be delivered as additional vesting shares.
- Malus/clawback provisions apply on a basis consistent with the equivalent provisions in the AIP and DBSS and as explained in the notes to this table.
- The Group will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards.

Maximum

- The formal limit under the LTIP is 300% of base salary per annum (and 400% per annum in exceptional cases).
- The Remuneration Committee's practice is to make LTIP awards to Executive Directors each year over shares with a value (as at the award date) of up to 275% of the CEO's annual base salary and 200% of the CFO's annual base salary although discretion is reserved to make awards up to the maximum levels for the policy as stated above.

Performance measures
- The Remuneration Committee may set such performance measures for LTIP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). The measures for the 2020 LTIP are as set out below:

Measure	Weighting
Net Operating Cash Receipts	35%
Return on Shareholder Value	25%
Total Shareholder Return	20%
Persistency	20%

- The Remuneration Committee retains discretion to adjust the weightings or substitute metrics but would expect to consult with its major shareholders regarding any material changes of the current performance measures applied for LTIP awards made to Executive Directors or the relative weightings between these performance measures.
- For every LTIP award, appropriate disclosures regarding the proposed performance conditions will be made in the annual Implementation Report.
- Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it appropriate to make adjustments to the performance measures to ensure alignment with strategic objectives, provided that any adjusted performance measure is, in its opinion, neither materially more nor less difficult to satisfy than the original measure.
- For each part of an LTIP award subject to a specific performance condition, the threshold level of vesting will be no more than 25% of that part of the LTIP award.
- The performance period for LTIP awards will be at least three years, but the Remuneration Committee reserves discretion to lengthen the applicable performance periods for LTIP awards.

Element and purpose
All-employee share plans
To encourage share ownership by employees, thereby allowing them to participate in the long-term success of the Group and align their interests with those of the shareholders

Policy and operation
- Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees as required by HMRC legislation.

Maximum
- Sharesave – the Remuneration Committee has the facility to allow individuals to save up to a maximum of £500 each month (or such other level as permitted by HMRC legislation) for a fixed period of three or five years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20% of the market price set at the launch of each scheme.
- Share Incentive Plan ('SIP') – the Remuneration Committee has the facility to allow individuals to have the opportunity to purchase, out of their pre-tax salary, shares in the Company and receive up to two matching shares for every purchased share. Maximum saving is £150 each month (or up to such level as permitted by the Company in line with HMRC legislation). SIP also has the facility to allow for reinvestment of dividends in further shares, or the award of additional free shares (up to the limits as permitted by HMRC legislation).

Performance measures
- Consistent with normal practice, such awards are not subject to performance conditions.

Element and purpose
Shareholding guidelines
To encourage share ownership by the Executive Directors over the long-term, including post cessation of employment, and ensure interests are aligned

Policy and operation
- Executive Directors are expected to retain all shares (net of tax) which vest under the DBSS and under the LTIP (or any other discretionary long-term incentive arrangement introduced in the future) until such time as they hold a minimum of 300%of base salary in shares for the CEO and 250% of base salary in shares for the CFO.
- Only beneficially owned shares, vested share awards, and unvested share awards not subject to performance conditions (discounted for anticipated tax liabilities), may be counted for the purposes of the guidelines. Share awards subject to performance conditions do not count prior to vesting.
- Once shareholding guidelines have been met, individuals are expected to retain these levels as a minimum. The Remuneration Committee will review shareholdings annually in the context of this policy.
- Post cessation of employment, Executive Directors are expected to retain the lower of their full level of employment shareholding guideline or their actual shareholding at termination for a period of two years.

Maximum
- N/A

Performance measures
- N/A

Element and purpose
Chairman and Non-Executive Director fees

Policy and operation
- The fees paid to the Chairman and the fees of the other Non-Executive Directors are set to be competitive with other listed companies of equivalent size and complexity.
- The Group does not adopt a quantitative approach to pay positioning and exercises judgement as to what it considers to be reasonable in all the circumstances as regards quantum.
- Additional fees are paid to Non-Executive Directors who chair a Board committee, or sit on the board of a subsidiary company or on the Solvency II Model Governance Committee, and to the Senior Independent Director ('SID') and dedicated Workforce Director of Engagement. No separate Board committee membership fees are currently paid.
- Fees are paid monthly in cash.
- Fee levels for Non-Executive Directors are reviewed annually with any changes normally taking effect from 1 January. Additional reviews may take place in exceptional circumstances, such as following major corporate events, to ensure that fees remain appropriate in the context of the Group's size and complexity.

Maximum
- The aggregate fees of the Chairman and Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees (currently £2 million per annum in aggregate).
- The Company reserves the right to vary the structure of fees within this limit including, for example, introducing time-based fees or reflecting the establishment of new Board committees.

Performance measures
- N/A

NOTES TO THE REMUNERATION POLICY TABLE

1. Differences between the Policy on Remuneration for Directors and the Policy on Remuneration of other employees

When determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate.

The Group has (as required by Solvency II regulations) one consistent reward policy for all levels of employees and this policy is made available to all staff. Therefore, the same reward principles guide reward decisions for all Phoenix employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business as follows:

- AIP – all Phoenix employees participate in the AIP, although the quantum and balance of corporate to individual objectives varies by level. The most senior staff are subject to the regulatory requirements of Solvency II, and these individuals also receive part of their bonus in Company shares deferred for a period of three years. A different scorecard of AIP performance measures applies for Solvency II Identified staff in 'control functions' (risk, compliance, internal audit and actuarial) to exclude financial performance measures.
- LTIP – our most senior employees participate in the LTIP currently based on the same performance conditions as those for Executive Directors, although the Committee reserves the discretion to vary the performance conditions for awards made to employees below the Board for future awards.
- All-employee share plans – the Committee considers it is important for all employees to have the opportunity to become shareholders in the Company. The Company offers two HMRC tax advantaged arrangements in which all UK employees can participate and acquire shares on a discounted and tax advantaged basis (Sharesave and SIP), and equivalent arrangements in foreign jurisdictions (including on a tax advantaged basis permitted under local laws). In addition, selected individuals may receive ad-hoc share awards under the Chairman's Award programme in recognition of exceptional commercial outcomes and is contingent on continued employment.

2. Stating maximum amounts for the Remuneration Policy

The DRR regulations and related investor guidance encourages companies to disclose a cap within which each element of remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

3. Malus and clawback

Malus (being the forfeiture of unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts as a debt) provisions apply to the AIP, DBSS and LTIP. These provisions may be applied where the Remuneration Committee considers it appropriate to do so following:

- a review of the conduct, capability or performance of an individual;
- a review of the performance of the Company or a Group member;
- any material misstatement of the Company's or a Group member's financial results for any period;
- any material failure of Risk Management by an individual, a Group member or the Company; or
- any other circumstances that have a sufficiently significant impact on the reputation of the Company or Group.

4. Travel and hospitality

While the Remuneration Committee does not consider this to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and certain instances of business travel (including any related tax liabilities settled by the Company or another Group company) for Directors may technically be considered as benefits and so the Remuneration Committee expressly reserves the right to authorise such activities and reimbursement of associated expenses within its agreed policies.

5. Discretions reserved in operating incentive plans

The Remuneration Committee will operate the AIP, DBSS and LTIP according to their respective rules and the above Remuneration Policy table. The Remuneration Committee retains certain discretions, consistent with market practice, in relation to the operation and administration of these plans including:

- (as described in the Remuneration Policy table) the determination of performance measures and targets and resulting vesting and pay-out levels;
- (as described in the Remuneration Policy table) the ability to adjust performance measures and targets to reflect events and/or to ensure the performance measures and targets operate as originally intended;
- (as described in the Termination Policy) determination of the treatment of individuals who leave employment, based on the rules of the incentive plans, and the treatment of the incentive plans on exceptional events, such as a change of control of the Company; and
- the ability to make adjustments to existing awards made under the incentive plans in certain circumstances (e.g. rights issues, corporate restructurings or special dividends). Any exercise of discretion will be disclosed in the Implementation Report for the year.
- consistent with the latest Corporate Governance Code, the Remuneration Committee may apply discretion to override formulaic outcomes if they are considered inconsistent with the underlying performance of the group (see pages 106 and 101).

RECRUITMENT REMUNERATION POLICY

The Group's recruitment remuneration policy aims to give the Remuneration Committee sufficient flexibility to secure the appointment and promotion of high calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Remuneration Committee will be to apply the general policy for Executive Directors as set out above and structure a package in accordance with that policy.

The AIP and LTIP will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director.

For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Remuneration Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer. For such buy-out awards, Phoenix Group will not pay more than is, in the view of the Remuneration Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure. It may, however, be necessary in some cases to make such awards on terms that are more bespoke than the existing annual and equity-based pay structures in Phoenix Group in order to secure a candidate. Details of any buy-out awards will be appropriately disclosed.

All such buy-out awards, whether under the AIP, LTIP or otherwise (for example, specific arrangements made under Listing Rule 9.4.2), will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Remuneration Committee will seek to make buy-out awards subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Remuneration Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed), and where the Remuneration Committee considers it to be in the interests of shareholders and where such factors are, in the view of the Remuneration Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited. Exceptionally, where necessary, this may include a guaranteed or non pro-rated annual incentive in the year of joining.

- For the avoidance of doubt, such buy-out awards are not subject to a formal cap.
- A new Non-Executive Director would be recruited on the terms explained in the Remuneration Policy for such Directors.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Executive Director service contracts, which do not contain expiry dates, provide that compensation provisions for termination without notice will only extend to 12 months of salary, certain fixed benefits and pension (which may be payable in instalments and subject to mitigation). By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Remuneration Committee believes the contracts to be consistent with best practice. The Remuneration Committee also has discretion to mitigate further by paying on a phased basis with unpaid instalments ceasing after the initial period of six months if the Executive Director finds alternative employment. Contracts do not contain change of control provisions. The template contract is reviewed from time to time and may be amended provided it is not overall more generous than the terms described above.

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards as long as these are not deemed to interfere with the business of the Group.

Non-Executive Directors

The Non-Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Appointment is for an initial fixed term of three years (which may be renewed), terminable by one month's notice from either side (six months in the case of the Chairman). Non-Executive Directors are not eligible to participate in incentive arrangements or receive pension provision or other benefits such as private medical insurance and life insurance.

Copies of Executive Director service contracts and Non-Executive Director letters of appointment are available for inspection at the Company's registered office.

TERMINATION POLICY SUMMARY

In practice, the facts surrounding any termination do not always fit neatly into defined categories for good or bad leavers. Therefore, it is appropriate for the Remuneration Committee to consider the suitable treatment on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatment which the Remuneration Committee may choose to apply under the discretions available to it under the terms of the AIP, DBSS and LTIP plans. The potential treatments on termination under these plans are summarised below.

Incentives	Good Leaver[1]	Bad Leaver	Exceptional Events
	A participant is considered a Good Leaver if leaving through redundancy, serious ill health or death or otherwise at the discretion of the Remuneration Committee	A participant would typically be considered a Bad Leaver following a voluntary resignation or leaving for disciplinary reasons	For example change in control or winding-up of the Company
AIP	Pro-rated annual incentive. Pro-rating to reflect only the period worked. Performance metrics determined by the Remuneration Committee	No awards made	Either the AIP will continue for the year or there will be a pro-rated annual incentive. Performance metrics determined by the Remuneration Committee
DBSS	Deferred awards vest at the end of the original vesting period	Deferred awards normally lapse	Deferred awards vest
LTIP	Will receive a pro-rated award subject to the application of the performance conditions at the normal measurement date and, generally, any holding period will continue to apply Remuneration Committee discretion to disapply pro-rating or to accelerate vesting to the date of leaving (subject to pro-rating and performance conditions) and/or the release of any holding period	All awards will normally lapse	Will receive a pro-rated award subject to the application of the performance conditions at the date of the event. Remuneration Committee discretion to disapply pro-rating

1 Where the reason for leaving is retirement, the individual will be required to provide confirmation of their continued retirement before any payments are released to them after the end of the vesting period.

The Group has power to enter into settlement agreements with executives and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of termination of an Executive Director, the Group may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

In the event of cessation of a Non-Executive Director's appointment (excluding the Chairman) they would be entitled to a one month's notice period. The Chairman, as detailed in his letter of appointment, would be entitled to a six months' notice period.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

As explained in the notes to the Remuneration Policy table, the Remuneration Committee takes into account Group-wide pay and employment conditions. The Remuneration Committee reviews the average Group-wide base salary increase and annual incentive costs and is responsible for all discretionary and all-employee share arrangements.

Consistent with previous practice, the Remuneration Committee did not consult with employees in preparing the 2020 Remuneration Policy although has established further employee engagement in 2019 in accordance with the requirement under the Corporate Governance Code. Further details are shown on page 84.

CONSIDERATION OF SHAREHOLDERS' VIEWS

Each year the Remuneration Committee takes into account the approval levels of remuneration-related matters at our AGM in determining that the current Remuneration Policy remains appropriate for the Company.

The Remuneration Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. The Remuneration Committee consulted with shareholders prior to submission of this policy. The previous Remuneration Policy was submitted to shareholders at the 2019 AGM due to the completion of a Scheme of Arrangement in 2018 and this was approved with 99.7% support.

SECTION B:

THIS SECTION CONTAINS THE ANNUAL REPORT ON REMUNERATION WHICH FORMS PART OF THE DIRECTORS' REMUNERATION REPORT TO BE PROPOSED FOR APPROVAL BY THE COMPANY'S SHAREHOLDERS AT THE COMPANY'S 2020 AGM ON 15 MAY 2020

IMPLEMENTATION REPORT – AUDITED INFORMATION SINGLE FIGURE TABLE

	Salary/fees[1]		Benefits[2]		Annual Incentive[3]		Long-term incentives		Pension[6]		Total	
£000	**2019**	2018	**2019**	2018	**2019**	2018	**2019[4]**	2018[5] (restated)	**2019**	2018	**2019**	2018[5] (restated)
Clive Bannister	700	700	16	16	969	898	1,168	830	123	123	2,976	2,567
James McConville	440	440	16	16	576	581	734	522	77	77	1,843	1,636

1 The Executive Directors are entitled to adjust their salary/benefit combination under flexible benefits arrangements and the figures shown are before individual elections.

2 Benefits for Clive Bannister comprise car allowance and private medical insurance totalling £16,346. Benefits for James McConville comprise car allowance and private medical insurance totalling £16,076.

3 Annual incentive amounts are presented inclusive of any amounts which must be deferred into shares for three years (ie 40% of the AIP award for 2019). In 2019 and 2018, £387,660 and £359,100 respectively of Clive Bannister's incentive payment is subject to three-year deferral delivered in shares, and £230,472 and £232,320 of James McConville's incentive payment is subject to a similar deferral. Deferred amounts are subject to continued employment or good leaver status.

4 In accordance with the requirements of the DRR regulations, the 2019 value for long-term incentives is an estimate of the vesting outcomes for LTIP awards granted in 2017 and which are due to vest on 24 March 2020 for Clive Bannister and James McConville. These vesting levels are at 68.5% reflecting outcomes against the Cumulative cash generation and TSR performance measures to 31 December 2019 (see page 118) and assumptions regarding dividends for the period until vesting. This vesting outcome is then applied to the average share price between 1 October 2019 and 31 December 2019 (717.09p) to produce the estimated long-term incentives figures shown for 2019 in the above table. These assumptions will be trued up for actual share prices and dividends on vesting in the report for 2020. The disclosed LTIP figure of £1,168k for Clive Bannister reflects the proportion of the original award which ultimately vested (£971k) plus the value of dividend roll-up on those shares (£197k). For James McConville the equivalent values are £734k as the disclosed LTIP figure, comprising £610k for the value of the proportion of the original LTIP award which ultimately vested plus the value of dividend roll-up on those shares (£124k). All values are calculated using the three month average share price to 31 December 2019 (717.09p).

5 For 2016's LTIP awards which are reflected in the 2018 long-term incentives column above, the performance conditions were met as to 49.5% of maximum. The 2018 long-term incentives values in the above table reflect the value of the Company's shares on the date of vesting which was 2 June 2019 (671.1p per share) multiplied by the number of shares vesting whereas the equivalent figure within the published 2018 Single Figure Table was an estimate which reflected the average share price between 1 October 2018 and 31 December 2018 (600.04p per share) and certain assumptions regarding the cumulative value of dividends on the number of shares vesting.

6 Clive Bannister and James McConville are entitled to each receive a Company pension contribution of 17.6% which is paid in cash. Pension contributions paid as cash supplements are reduced for the effect of employers' National Insurance contributions. Both Clive Bannister and James McConville received the pension contributions as cash supplements. No Director participated in a defined benefit pension arrangement in the year and none have any prospective entitlement to a defined benefit pension arrangement.

PAYMENTS FOR LOSS OF OFFICE AND PAYMENTS TO PAST DIRECTORS

There were no payments made to former Directors and no payments for loss of office in the year.

AIP OUTCOMES FOR 2019

Against the specific Corporate measures, outturns were as follows:

Performance measure	Threshold performance level for 2019 AIP	Target performance level for 2019 AIP	Maximum performance level for 2019 AIP	Performance level attained for 2019 AIP	% of incentive potential based on Performance Measure	% achieved
Operating Companies' Cash generation	£600m	£650m	£700m	£707m	30.00%	30.00%
Solvency II Management Actions	£120m	£170m	£250m	£512m	15.00%	15.00%
Adjusted Shareholder Solvency II Own Funds	£5,180m	£5,280m	£5,380m	£5,939m	30.00%	30.00%
Customer experience						
Customer satisfaction (Phoenix Life)[1]	90%	91%	93%	94.0%	3.75%	3.75%
CAT B incident closures (Phoenix Life)[2]	≥70%	≥72.5%	≥75%	83.0%	2.50%	2.50%
Customer Service and Accessibility (SLAL)[3]	≥70%	≥72.5%	≥75%	71.0%	6.25%	1.25%
Origo timescales (all)[4]	≤12 days	≤11 days	≤9.5 days	9.7 days	7.50%	7.00%
Servicing complaint closure[5]	50%	55%	60%	56.0%	2.50%	1.50%
FOS overturn rate[6]	≤20%	≤19%	≤18%	17.0%	2.50%	2.50%
Total					100.00%	93.50%

1 The rating is a customer satisfaction score based on the results of a satisfaction survey managed by Ipsos MORI (an external research firm). Customers surveyed were asked to give a satisfaction rating of between 1 and 5 to a number of questions (with a rating of 4 or 5 regarded as satisfied). 94% of all questions asked scored a rating of 4 or above.

2 This measure looks at the resolution of incidents for which there could be customer detriment (financial or non-financial). It measures the timeliness of actions when things go wrong. The metrics in the table represent the percentage of cases closed within nine months.

3 This measure assesses how easy customers have found Phoenix Group to deal with using a scale of 0 – 10. The NetEasy score is the difference between the number of promotors (those scoring 9 or 10) and the number of detractors (those scoring 0).

4 The Origo Options service is a recognised industry-wide initiative for processing Pension Transfers to ensure payments are made in a timely fashion. The service has set a benchmark standard of a 12 calendar day average elapsed time for processing transfers.

5 This measure looks at servicing (i.e. not product or advice) complaints which are closed within three days.

6 This measure looks at the proportion of cases where the Financial Ombudsman Service disagrees with our decision-making in dealings with customers or an aspect of it. For the AIP the FOS overturn rate is calculated based on an average of the H1 current year and H2 prior year rates. This is due to the timing of when the FOS rates are published.

All customer target ranges were set at the same level as the previous year with the exception of Servicing Complaints which was set at a lower level than in 2018. This measure was introduced into the AIP in 2018 and focused on the swift but appropriate resolution of complaints acknowledging the FCA requirement to close complaints within an 8 week period. In setting the 2019 target range, the Committee considered the historic outturns for Servicing Complaints at the SLA businesses and determined that the lower range was appropriate to incentivise improved performance across the combined business.

As described in the Group Chairman's and Group CEO's reports (pages 6 to 11), 2019 has been a year of significant achievement for the Phoenix Group in which all strategic and financial targets were met, and cash, resilience and growth were delivered.

Prior to confirming the outcomes for the 2019 AIP, the Committee reviewed in detail the extent to which the Group had operated within its stated risk appetite during the year and determined that no moderation of the 2019 formulaic outcome was necessary.

Personal objectives were agreed by the Group Board and shared with the Remuneration Committee at the start of the year. A number of the personal objectives are considered commercially sensitive and, accordingly, are not disclosed below. However a number of achievements for the Executive Directors are shown below:

Clive Bannister, Group Chief Executive Officer ('Group CEO')

Objectives	Achievements
Identify acquisition opportunities capable of individually and collectively, materially enhancing shareholder value, and execute as appropriate	The acquisition of ReAssure Group plc, subject to regulatory approval, continues Phoenix Group's strategy of aligned acquisitions that are accretive in value and focused on our competencies. The Group CEO was critical to this transaction and reflects sustained strategic interest in this outcome.
Transition Standard Life Assurance businesses safely into the Phoenix Group	Ensured the Group remained on track to deliver total cost and capital synergy target of £1.2 billion.
Deliver financial targets	Ensured the Group remained on target to deliver 2019–2023 cash generation ≥ £3.9 billion. Oversaw the resilience of the Group shareholder capital coverage ratio at 31 December 2019 to 161%, in the middle of our target range of 140–180%. Ensured our current investment grade rating was maintained with a 'positive' outlook, upgraded from 'stable' following the announcement of the proposed acquisition of ReAssure Group plc. Ensured all internal targets were met in relation to persistency within our Workplace Pensions business for 2019.
Enhance BPA operation and deliver on the strategic asset allocation strategy	Oversaw delivery of a consecutive year of BPA growth and appropriate management of Illiquid Investments (£1.1 billion and £1.3 billion respectively).
Improve retention in both Open and Heritage businesses	Drove the customer engagement agenda including advancing its proposition for pot consolidation with almost £1 billion new cash invested (up c.30% from 2018). Across the Heritage books the level of retention has been broadly in line with or favourable to plan. There has been a sharpened focus on the workplace proposition with developments agreed to retain and grow the business going forward, underpinned by the announcement of an expanded strategic partnership with Tata Consultancy Services ('TCS').
Accelerate digital adoption across the Group	Oversaw continued development of on-line capabilities. Within Phoenix Life, the phoenixlife.co.uk website continues to accept c.50,000 visits per month, and MyPhoenix has digitally enabled over 80% of customers. Within Standard Life Assurance Limited ('SLAL'), logins to the mobile app and dashboard increased to over 1 million per month, 21% ahead of target. The expanded partnership with TCS announced in 2019 will enable further innovation and digital capability to build on the Group's customer service excellence.
Maintain strong effective relationships with regulators	Championed another solid year of maintaining a wholly effective and transparent relationship with our regulators.
Define and progressively deliver IT/ Operations TOM	Integration of the Standard Life Assurance businesses continues on plan and we have shared appropriately with all stakeholders our intended engagement with strategic partners and associated outsourcing of technology and operations.
Deliver actions to distinguish Phoenix Group as a High Performing Organisation including salary/bonus conformity by end of 2019	Oversaw delivery of a common bonus scheme with higher exposure to corporate outcomes and a unified approach to performance management, with greater differentiation.
Deliver on Diversity targets	Diversity targets are set for year end 2021 and while progress has been made in respect of succession and talent development, acquisitions often challenge progress and our published targets for both our gender pay gap and senior female representation have not progressed satisfactorily for the year 2019. However a solid framework is in place for diversity in relation to hiring and development of our colleagues.

James McConville, Group Finance Director ('Group FD')

Objectives	Achievements
Complete at least one acquisition enhancing shareholder value	The Group FD played a critical role in supporting the Group's significant acquisition of ReAssure Group plc leading the Finance support to the transaction, the associated funding plan and presentation to the Fitch rating agency and equity and debt investors.
Deliver the financial results at or ahead of plan	Ensured the Group remained on target to deliver 2019–2023 cash generation ≥ £3.9 billion. All financial targets have been exceeded with reference to our Corporate targets and delivered an operating profit of £810 million.
Lead the Transition Programme for the Standard Life Assurance acquisition	The Group FD has led the Transition Programme post the acquisition of the Standard Life Assurance businesses with increased financial targets issued during the year and 2019 delivery being in line or ahead of expectations.
Take forward the Group's medium-term funding strategy	Oversaw the renogotiation of the Group's Revolving Credit facility at lower cost and improved terms. During the year Fitch reaffirmed their rating for the business and amended the rating to 'positive outlook' following the announcement of the proposed ReAssure Group plcacquisition.
Promote the Group's interests in Scotland	The Group FD successfully led the engagement with the Scottish Government and political parties and trade bodies in Scotland to widen knowledge of Phoenix Group and our plans for our business operated in Scotland.
Deliver on Diversity targets	Diversity targets are set for year end 2021 and while progress has been made in respect of succession and talent development, acquisitions often challenge progress and our published targets for both our gender pay gap and senior female representation have not progressed satisfactorily for the year 2019. However a solid framework is in place for diversity in relation to hiring and development of our colleagues.
Manage investor relations and the external communications function	The Group FD ran a comprehensive investor engagement programme across debt and equity which comprised 20 investor roadshows, meetings with 406 debt and equity investors, and a capital markets event attended by 133 external attendees including investors and analysts. The number of analysts increased by a net 3 to 14.

Taking account of the attainment of personal objectives, the Group Chief Executive Officer received an 87.5% payout (£183,750) for this element and the Group Finance Director received a 62.5%payout (£82,500) for this element, consistent with their ratings for 2019. These Personal (individual objectives) measures applied to 20% of incentive opportunity and Corporate (financial and strategic) measures applied to 80% of incentive opportunity. Overall outturns as a percentage of maximum opportunity are 92.3% for the Group Chief Executive Officer and 87.3% for the Group Finance Director.

The table below shows the actual outturn against the annual incentive maximum.

	Corporate		Personal		Total	Maximum	Total
	As a % of maximum Corporate element	As a % of salary	As a % of maximum Personal element	As a % of salary	As a % of salary	As a % of salary	As a % of maximum opportunity
Clive Bannister	93.50	112.20	87.50	26.25	138.45	150.00	92.30
James McConville	93.50	112.20	62.50	18.75	130.95	150.00	87.30

As described in the Remuneration Policy, 40% of 2019 AIP outcomes will be delivered as an award of deferred shares under the DBSS which will vest after a three-year deferral period. This deferral level rises to 50% from the 2020 performance year.

In addition, whilst the performance measures for the AIP for 2020 have been disclosed (see Implementation of Remuneration Policy for 2020 on page 123), the actual performance targets for these measures are regarded as commercially sensitive at the current time and accordingly are not disclosed. However, as in previous years, the Company intends to disclose the performance targets for 2020's AIP retrospectively in next year's Remuneration Report on a similar basis to the disclosures made above in respect of 2019's AIP.

LTIP OUTCOMES FOR 2017 AWARDS

Performance measure and weighting	Target range	Performance achieved	Vesting outcome	% achieved
Cumulative cash generation (50%)	Target range between Cumulative cash generation of £1.372 billion and Cumulative cash generation of £1.572 billion.	£1.726bn	100%	50.0%
TSR (50%)	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.	55th	37%	18.5%
Total				68.5%

The above targets were all measured over the period of three financial years 1 January 2017 to 31 December 2019.

In addition to the above targets, the Committee confirmed that the underpin performance condition relating to debt levels and associated interest costs, and management of debt, capital restructuring and Risk Management within the Group, customer satisfaction and, in exceptional cases, personal performance (as described more fully on page 119, had been achieved in the performance period.

NON-EXECUTIVE FEES – AUDITED INFORMATION

The emoluments of the Non-Executive Directors for 2019 based on the current disclosure requirements were as follows:

Name	**Directors' salaries/fees 2019 £000**	Directors' salaries/fees 2018 £000	**Benefits[1] 2019 £000**	Benefits1 2018 £000	**Total 2019 £000**	Total 2018 £000
Non-Executive Chairman						
Henry Staunton[2]	**–**	271	**–**	–	**–**	271
Nicholas Lyons[3]	**325**	55	**7**	2	**332**	57
Non-Executive Directors						
Alastair Barbour	**145**	143	**15**	12	**160**	155
Ian Cormack[4]	**–**	39	**–**	–	**–**	39
Campbell Fleming[5]	**–**	–	**–**	–	**–**	–
Karen Green	**117**	105	**5**	3	**122**	108
Wendy Mayall	**105**	107	**1**	2	**106**	109
Barry O'Dwyer[5,6]	**–**	–	**–**	–	**–**	–
John Pollock	**134**	127	**3**	–	**137**	127
Belinda Richards	**105**	105	**5**	1	**110**	106
Nicholas Shott	**105**	105	**5**	2	**110**	107
Kory Sorenson	**125**	125	**–**	–	**125**	125
Mike Tumilty[6]	**–**	–	**–**	–	**–**	–
Total	**1,161**	1,182	**41**	22	**1,202**	1,204

1 The amounts within the benefits columns reflect the fact that the reimbursement of expenses to Non-Executive Directors for travel and accommodation costs incurred in attending Phoenix Group Holdings and Phoenix Group Holdings plc Board and associated meetings represent a taxable benefit. This position has been clarified with HMRC and the amounts shown are for reimbursed travel and accommodation expenses (and the related tax liability which is settled by the Group).
2 Henry Staunton retired from the Board of Phoenix Group Holdings on 31 October 2018.
3 Nicholas Lyons became Chairman designate of Phoenix Group Holdings from 1 September 2018 and was confirmed in this appointment on 31 October 2018.
4 Ian Cormack retired from the Board of Phoenix Group Holdings on 2 May 2018.
5 Campbell Fleming and Barry O'Dwyer joined the Board of Phoenix Group Holdings on 31 August 2018 and waived all current and future emoluments with regard to their Directors' fees.
6 On 1 September 2019 Mike Tumilty joined the Board of Phoenix Group Holdings plc, replacing Barry O'Dwyer following his resignation from the Board on 28 June 2019. Mike Tumilty has waived all current and future emoluments with regard to his Directors fees.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions and annual incentive was £4.120 million (2018: £4.055million).

SHARE-BASED AWARDS – AUDITED INFORMATION

As at 31 December 2019, Directors' interests under long-term share-based arrangements were as follows:

LTIP

Name	Date of grant	Share price on grant	No. of shares as at 1 Jan 2019	No. of shares granted in 2019	No. of dividend shares accumulating at vesting[1]	No. of shares exercised[2]	No. of shares not vested[3]	No. of shares as at 31 Dec 2019	Vesting date[4]
Clive Bannister									
LTIP	28 Sept 2015	632.8p	**169,669**	–	–	–	–	169,669	28 Sept 2018
LTIP	2 Jun 2016	670.9p	**208,654**	–	**41,326**	–	**(126,240)**	123,740	2 Jun 2019
LTIP	24 Mar 2017	708.7p	**197,526**	–	–	–	–	197,526	24 Mar 2020
LTIP	21 Mar 2018	703.6p	**198,956**	–	–	–	–	198,956	21 Mar 2021
LTIP	11 Mar 2019	700.4p	–	**199,865**	–	–	–	199,865	11 Mar 2022
			774,805	**199,865**	**41,326**	–	**(126,240)**	889,756	
James McConville									
LTIP	28 Sept 2015	632.8p	**106,646**	–	–	–	–	106,646	28 Sept 2018
LTIP	2 Jun 2016	670.9p	**131,152**	–	**25,974**	–	**(79,349)**	77,777	2 Jun 2019
LTIP	24 Mar 2017	708.7p	**124,159**	–	–	–	–	124,159	24 Mar 2020
LTIP	21 Mar 2018	703.6p	**125,058**	–	–	–		125,058	21 Mar 2021
LTIP	11 Mar 2019	700.4p	–	**125,629**	–	–	–	125,629	11 Mar 2022
			487,015	**125,629**	**25,974**	–	**(79,349)**	559,269	

1 In addition to the shares awarded under the LTIP presented above, participants receive an additional number of shares (based on the number of LTIP awards which actually vest) to reflect the dividends paid during the vesting period (and which for awards made from 2015, will include dividends paid during any applicable holding period).
2 Gains of Directors from share options exercised and vesting shares under the LTIP in 2019 were £nil (2018: £nil).
3 The 2016 LTIP award vested at 49.5% of maximum. The 2017 LTIP award vested at 68.5% of maximum.
4 All LTIP awards are now subject to a holding period so that any LTIP awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date.

LTIP TARGETS

The performance conditions for the 2017, 2018 and 2019 awards are set out below and include the adjustments made to the 2018 targets as described on page 94 in the 2018 DRR. For clarity no changes were made to the 2017 targets as the plan only consisted of two performance measures, Cumulative cash generation and TSR. No cash generation was expected to be released in 2018 or 2019 from Standard Life Assurance Limited following completion in August 2018.

Performance measure	2017 award (50% Cumulative cash generation and 50% TSR)	2018 award (40% Cumulative cash generation, 35% Return on Adjusted Shareholder Solvency II Own Funds and 25% TSR)	2019 award (40% Cumulative cash generation, 35% Return on Adjusted Shareholder Solvency II Own Funds and 25% TSR)
Return on Adjusted Shareholder Solvency II Own Funds 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Not applicable.	Between 4% CAGR and 6% CAGR.	Between 4.5% CAGR and 6.5% CAGR.
Cumulative cash generation 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range of £1.372bn to £1.572bn.	Target range of £1.824bn to £2.024bn.	Target range of £2.097bn to £2.397bn.
TSR 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company, measured over three financial years commencing with the year of award.	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.	Target range as for 2017.	Target range as for 2017.

Underpin: Notwithstanding the Return on Adjusted Shareholder Solvency II Own Funds, Cumulative cash generation and TSR performance targets, if the Committee determines that the Group's debt levels and associated interest costs have not remained within parameters acceptable to the Committee over the performance period, and that the Group has not made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management, capital structuring and Risk Management, the level of awards vesting will either be reduced or lapse in full. The underpin also includes consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance.

DBSS

	Date of grant	Share price on grant	No. of shares granted as at 1 Jan 2019	No. of shares granted in 2019	No. of dividend shares accumulating at vesting[1]	No. of shares exercised[2]	No. of shares lapsed/ waived	No. of shares as at 31 Dec 2019	Vesting date
Clive Bannister									
DBSS	2 Jun 2016	670.9p	**42,773**	–	**9,737**	**(52,510)**	–	–	24 Mar 2019
DBSS	24 Mar 2017	708.7p	**41,548**	–	–	–	–	**41,548**	20 Mar 2020
DBSS	21 Mar 2018	703.6p	**51,277**	–	–	–	–	**51,277**	15 Mar 2021
DBSS	11 Mar 2019	700.4p	–	**51,265**	–	–	–	**51,265**	11 Mar 2022
			135,598	**51,265**	**9,737**	**(52,510)**	–	**144,090**	
James McConville									
DBSS	2 Jun 2016	670.9p	**28,115**	–	**6,399**	**(34,514)**	–	–	24 Mar 2019
DBSS	24 Mar 2017	708.7p	**26,116**	–	–	–	–	**26,116**	20 Mar 2020
DBSS	21 Mar 2018	703.6p	**32,232**	–	–	–		**32,232**	15 Mar 2021
DBSS	11 Mar 2019	700.4p	–	**33,166**	–	–	–	**33,166**	15 Mar 2021
			86,463	**33,166**	**6,399**	**(34,514)**	–	**91,514**	

1 In addition to the shares awarded under the DBSS presented above, participants receive an additional number of shares (based on the number of DBSS awards which actually vest) to reflect the dividends paid during the vesting period.

2 Gains of Directors from share options exercised and vesting shares under the DBSS in 2019 were £590,721 (2018: £525,707). Clive Bannister's gain was £350,504 arising from an award exercised on 4 June 2019 at a share price of £6.675 James McConville's gain was £240,217 arising from an award exercised on 26 June 2019 at a share price of £6.96.

The DBSS is the share scheme used for the deferral of AIP. No performance conditions apply therefore, other than being subject to continued employment.

SCHEME INTERESTS AWARDED IN THE YEAR – AUDITED INFORMATION

Recipient	Date of award	Type of award	Basis on which award made	Face value of award	Percentage vesting at threshold performance[1]	Vesting date	Performance measures
Clive Bannister	11 March 2019	LTIP	Nil cost option	£1,399,854	25%	11 March 2022	See page 119
Clive Bannister	11 March 2019	DBSS[1]	Nil cost option	£359,060	–	11 March 2022	None
James McConville	11 March 2019	LTIP	Nil cost option	£879,905	25%	11 March 2022	See page 119
James McConville	11 March 2019	DBSS[1]	Nil cost option	£232,294	–	11 March 2022	None

1 The DBSS awards have no threshold performance level.

The face value represents the maximum vesting of awards granted (but before any credit for dividends over the period to vesting) and is calculated using a share price of the average of the closing middle market prices of Phoenix shares for the three dealing days preceding the award date.

SHARESAVE – AUDITED INFORMATION

	As at 1 Jan 2019	Shares exercised	Shares lapsed	As at 31 Dec 2019	Exercise price	Exercisable from	Date of expiry
Clive Bannister	–	–	–	–	–	–	–
James McConville	**3,171**	–	–	**3,171**	£5.674	1 Jun 2020	1 Dec 2020

Gains of Directors from share options exercised under Sharesave during 2019 were nil (2018: nil). Sharesave options are granted with an option price that is a 20% discount to the three-day average share price when invitations are made. This is permitted by HMRC regulations for such options.

Aggregate gains of Directors from share options exercised and vesting shares under all share plans in 2019 were £590,721. (2018: £525,707).

During the year ended 31 December 2019, the highest mid-market price of the Company's shares was 758.7p and the lowest mid-market price was 558p. At 31 December 2019, the Company's share price was 749p.

DIRECTORS' INTERESTS – AUDITED INFORMATION

The number of shares and share plan interests held by each Director and their connected persons are shown below:

	As at 1 January 2019 or date of appointment if later	As at 31 December 2019 or retirement if earlier	Total share plan interests as at 31 December 2019 – Subject to performance measures	Total share plan interests as at 31 December 2019 – Not subject to performance measures	Total share plan interests as at 31 December 2019 – Vested but unexercised scheme interest
Clive Bannister	827,128	854,810	596,347	144,090	293,409
James McConville	253,227	253,227	374,846	91,514	184,423
Alastair Barbour	9,716	9,716	–	–	–
Campbell Fleming	–	–	–	–	–
Karen Green	–	–	–	–	–
Nicholas Lyons	20,000	20,000	–	–	–
Wendy Mayall	30,000	30,000	–	–	–
Barry O'Dwyer	–	–	–	–	–
John Pollock	14,666	14,666	–	–	–
Belinda Richards	–	–	–	–	–
Nicholas Shott	7,333	7,333	–	–	–
Kory Sorenson	15,704	20,704	–	–	–
Michael Tumilty	–	–	–	–	–

There have been no changes in the Directors' share interests between 31 December 2019 and 3 March 2020 (being one month prior to the date of the notice of the AGM).

SHAREHOLDING REQUIREMENTS – AUDITED INFORMATION

As explained in the Remuneration Policy under the Shareholding Guidelines section, the Executive Directors are subject to shareholding requirements.

The extent to which Executive Directors have achieved the requirements by 31 December 2019 (using the share price of 749p as at 31 December 2019) can be summarised as follows:

Position	Shareholding Guideline (minimum % of salary)	Value of shares held at 31 December 2019 (% of salary)
Clive Bannister	**200%**	**1,081%**
James McConville	**200%**	**597%**

The Executive Directors are required to sign a declaration that they have not and will not at any time during their employment with Phoenix, enter into any hedging contract in respect of their participation in the AIP, LTIP, Sharesave, SIP or any other incentive plan of the Company, or pledge awards in such plans as collateral, and additionally that they will neither enter into a hedging contract in respect of, nor pledge as collateral, any shares which are required to be held for the purposes of the Company's Shareholding requirements or any vested LTIP award shares subject to a LTIP holding period.

IMPLEMENTATION OF REMUNERATION POLICY IN 2020 – NON-AUDITABLE

Board Changes

A summary of the packages of the new Executive Directors is set out in the table below.

In order to secure the best candidate, the Committee agreed to offer a remuneration package reflective of the highly competitive market for talent in our specialist area of financial services. Given there has been no change to any element of the remuneration package for the outgoing CEO (Clive Bannister) since his arrival in 2011, the package offered to Andy Briggs is higher reflecting the size and complexity of Phoenix Group over the last few years and is commensurate with the deep experience and expertise that Andy will bring to the Group in both the Open and Heritage business. Andy has over 30 years of insurance industry leadership experience including as the CEO of a public limited company and former Chairman of the ABI as well as being the Government Business Champion for Older Workers. The Committee is confident that the new package is appropriately positioned relative to our peers and reflective of Andy's experience and expertise. The Committee believes it represents excellent value for shareholders and is therefore delighted that Andy accepted the offer. The table below details the remuneration package for the new CEO.

Element of remuneration	Andy Briggs
Salary	£800,000
Benefits	Benefits in line with our new Unified People Proposition (see page 126 for further details) including car allowance of £10,000 (previous policy £15,000) and Private Medical Insurance cover for self only. Executive Directors are also entitled to receive benefits in accordance with our Directors' Remuneration Policy which will be reported in the Single Figure Table each year.
Pension	Contribution rate of 12% of base salary (10.5% when taken as a cash payment), aligned to our workforce under our Unified People Proposition (see page 126 for further details)
Annual bonus	150% of base salary at maximum. Details of the 2020 AIP are set out below.
LTIP	275% of base salary. Details of the 2020 LTIP awards are set out below.
Buyout awards	The Company will buy out the in-flight awards granted by his former employer in March 2017 and May 2018, pro-rated to the end of his former employment. The buy-out award will vest subject to the achievement of the former employer's original published performance targets. The vesting date will be as soon as possible following verification of the level of vesting achieved. Details will be disclosed in the relevant Remuneration Report.
Shareholding requirement	300% of base salary. Where any performance vested LTIP awards are subject to a holding period requirement, the relevant LTIP award shares (discounted for anticipated tax liabilities) will count towards the shareholding requirements. Unvested awards under the DBSS which are not subject to performance conditions are included in this assessment on a net of tax basis. Unvested awards under the LTIP are not included in this assessment.
Post cessation shareholding requirement	Executive Directors are expected to retain the lower of their shareholding on termination or their full in-employment shareholding requirement for two years.

As per the announcement on 9 March 2020, the Committee also warmly welcomes Rakesh Thakrar to the Board as Group Chief Financial Officer ('CFO') subject to regulatory approval. The Committee is delighted with this appointment as an attestation to the succession plans within Phoenix Group, enabling this promotion from within the organisation. The table below details the remuneration package for the new CFO.

Element of remuneration	Rakesh Thakrar
Salary	£420,000
Benefits	Benefits in line with our new Unified People Proposition (see page 126 for further details) including car allowance of £10,000 (previous policy £15,000) and Private Medical Insurance cover for self only. Executive Directors are also entitled to receive benefits in accordance with our Directors' Remuneration Policy which will be reported in the Single Figure Table each year.
Pension	Contribution rate of 12% of base salary (10.5% when taken as a cash payment), aligned to our workforce under our Unified People Proposition (see page 126 for further details)
Annual bonus	150% of base salary at maximum. Details of the 2020 AIP are set out below.
LTIP	200% of base salary. Details of the 2020 LTIP awards are set out below.
Shareholding requirement	250% of base salary. Where any performance vested LTIP awards are subject to a holding period requirement, the relevant LTIP award shares (discounted for anticipated tax liabilities) will count towards the shareholding requirements. Unvested awards under the DBSS which are not subject to performance conditions are included in this assessment on a net of tax basis. Unvested awards under the LTIP are not included in this assessment.
Post cessation shareholding requirement	Executive Directors are expected to retain the lower of their shareholding on termination or their full in-employment shareholding requirement for two years.

Element of Remuneration Policy	Detail of Implementation of Policy for 2020
Annual Incentive Plan ('AIP')	Following the acquisition of the Standard Life Assurance businesses in 2018, metrics have been revised to reflect the performance of the Open business. The largest component of our Open business proposition is Workplace Pensions and an annual target for Net Workplace Flows is a transparent and robust measure of performance in the Open business. Drivers include new business sales performance, attractiveness of propositions, maintaining and servicing client relationships and market forces. The Management Actions metric will be removed in recognition of the challenges faced in setting appropriately stretching targets and following feedback from shareholders on this metric. This also allows space for the inclusion of Net Flows metric, which aligns with the strategic focus on the Open business. The Cash Generation and Shareholder Value metrics remain as they represent both the Open and the Heritage business. Additionally, a Strategic Scorecard will replace the Personal element of the AIP to provide greater transparency and will include a number of the strategic priorities for the year (but avoiding duplication with any outcomes under the Corporate element) and which can be clearly articulated and measured. This will include appropriate ESG metrics. The overall weightings between Corporate measures and the new Strategic Scorecard for AIP in 2020 are: • Corporate (financial and customer) performance measures – 80% (2019: 80%). • Strategic Scorecard (strategic company priorities 20% (2019: Personal – individual objectives 20%). The weightings of the AIP performance measures for 2020 are summarised below:

Performance measure	% of incentive potential
Corporate measure	
Cash Generation[1]	(30% of Corporate component) 24%
Shareholder Value[1]	(30% of Corporate component) 24%
Net Flows (Workplace)	(15% of Corporate component) 12%
Customer Experience	(25% of Corporate component) 20%
Strategic Scorecard	20%
Total	**100%**

Element of Remuneration Policy	Detail of Implementation of Policy for 2020
	Outcomes from performance measures for 2020's AIP may be moderated by the Remuneration Committee in line with the approved Remuneration Policy. This will include a review by the Remuneration Committee on the extent to which the Group has operated within its stated risk appetite and that there are no other risk-related concerns that would necessitate moderation before any 2020 AIP outcomes are confirmed. The targets for the specific performance measures for AIP in 2020 are regarded as commercially sensitive by the Group but will be disclosed retrospectively in the Remuneration Report for 2020. Bonus deferral under the AIP for 2020 will increase from 40% to 50% for both Executive Directors. 50% of AIP outcomes for 2020 will therefore be delivered as an award of deferred shares under the DBSS which will vest after a three-year deferral period.
Deferred Bonus Share Scheme ('DBSS')	DBSS awards made in 2020 (in respect of 2019's AIP outcome) will be made automatically on the fourth dealing day following the announcement of the Group's 2019 annual results in accordance with the Remuneration Policy. The number of shares for DBSS awards will be calculated using the average share price for the three dealing days before the grant of the DBSS awards. The three-year deferral period will run to the three-year anniversary of the making of the DBSS awards. Dividend entitlements for the shares subject to DBSS awards will accrue over the three-year deferral period.

1 These metrics have been renamed simply to provide clarity. The calculations for these remain unchanged from last year.
The Cash Generation and Shareholder Value metrics remain as they represent both the Open and the Heritage business.

Long-Term Incentive Plan ('LTIP')	Awards under the LTIP will be made automatically on the fourth dealing day following the announcement of the Group's 2019 annual results under a procedure similar to that described above for awards under the DBSS. The number of shares for LTIP awards will be calculated using the average share price for the three dealing days before the grant of the LTIP awards. The initial three-year vesting period will run to the three-year anniversary of the making of the LTIP awards. At this time, the performance conditions will be determined. All annual LTIP awards made to Executive Directors are subject to a holding period so that any LTIP awards for which the performance conditions are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividend accrual for LTIP awards will continue until the end of the holding period. The weightings of the LTIP performance measures for 2020 have been revised to reflect the Open Business following the acquisition of the Standard Life Assurance businesses in 2018. A Persistency metric will be added as a fourth element of long-term value assessment. Persistency is a key metric for the Group's long-term strategy, as it measures long-term customer retention. This is consistent with the New Workplace Flows metric in the AIP, which is focused on the shorter term.

Performance measure	Weighting of performance measure
Net Operating Cash Receipts	35%
Return on Shareholder Value	25%
Persistency	20%
Total Shareholder Return	20%
Total	**100%**

	The performance measures are measured over a period of three financial years, commencing with financial year 2020. All 2020 LTIP awards are subject to a further underpin measure relating to debt and risk management within the Group, consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance. These measures and the relative weightings are considered to be appropriate for 2020's LTIP awards. The performance targets for the Net Operating Cash Receipts measure are £2,375 million (where 25% of this part of the award vests) and £2,725 million (full vesting of this part of the award). The performance targets for the Return on Shareholder Value measure (return above risk free on Shareholder value (pre shareholder dividends) over a 3 year period) are 2% in excess of the risk-free rate (where 25% of this part of the award vests) and 4% in excess of the risk-free rate (full vesting of this part of the award). The performance targets for the Persistency measure are 6.5% (where 25% of this part of the award vests) and 8.0% (full vesting of this part of the award). In recognition of our move to the FTSE 100 index, for 2020 awards the relative TSR measure is calculated against the constituents of the FTSE 350 (excluding Investment Trusts), with vesting commencing at median (where 25% of this part of the award vests) and full vesting at upper quintile levels, subject to an underpin regarding underlying financial performance. The rules of the Company's LTIP reserves discretion for the Committee to adjust the outturn for any LTIP performance measures (from zero to any cap) should it consider that to be appropriate. The Committee may operate this discretion having regard to such factors as it considers relevant, including the performance of the Group, any individual or business.
All-Employee Share Plans	Executive Directors have the opportunity to participate in HMRC tax advantaged Sharesave and Share Incentive Plans on the same basis as all other UK employees.
Chairman and Non-Executive Directors' fees	The fee levels as at 1 January 2020 are the same as for 2019: £325,000 for the Chairman, £105,000 for the role of Non-Executive Director with additional fees of: (i) £10,000 payable for the role of SID; and/or (ii) £20,000 payable where an individual also chairs the Audit, Remuneration or Risk Committee; and/or (iii) £20,000 payable where a Non-Executive Director also serves on the board of a subsidiary company or is the dedicated Workforce Director of Engagement; and/or (iv) £10,000 payable for service on the Solvency II Model Governance Committee. In line with the directors' remuneration policy, fee levels will be reviewed during the year to ensure that they remain competitive with other listed companies of equivalent size and complexity.

Note: All incentive plans are subject to malus/clawback. See page 111 'Notes to the Remuneration Policy' for details.

EXECUTIVE DIRECTOR DEPARTURES

In November we announced that Clive Bannister would step down as CEO following the publication of our 2019 full year results and after nine very successful years with the business. His departure arrangements will be in line with the Remuneration Policy.

Clive Bannister will leave the Company on 9 March 2020. He will receive pay in lieu of notice for the period starting on this date and ending on 7 November 2020, comprising salary, pension allowance and insurance benefits. He will receive no compensation for loss of car allowance. Clive's 2019 AIP will be paid in the normal way and subject to 40% deferral in line with the current policy. Clive will be eligible for a 2020 AIP award for the portion of the year in which he remains employed by the Group, which will be payable in March 2021 and subject to 50% deferral in line with the proposed policy. Clive's in-flight LTIP awards will be time pro-rated to his end date. A summary of the arrangements is set out in the table below. Actual figures will be disclosed in the 2020 Remuneration Report

Element of Pay	Decision
Salary and benefits to 9 March 2020	• Paid in the normal way
Termination payment	• Balance of 12 months from date of departure to one-year anniversary of announcement of departure (7 November 2020). • Payment comprises salary plus certain benefits plus pension. • Paid monthly and subject to reduction in relation to payments for the periods from 8 November 2019 onwards if a new role found.
2019 AIP	• Paid in the normal way including 40% deferral in line with the current policy.
2020 AIP	• Eligible for payment to termination date. • Paid in March 2021 with 50% deferral in line with new policy.
DBSS	• Deferred awards, including the deferred elements of the above 2019 and 2020 AIP awards, will be maintained until the third anniversary of grant.
LTIP	• Good leaver status. • In-flight awards pro-rated for period employed of the three-year period commencing on the date of grant. • Awards only exercisable on fifth anniversary of grant. • No grant in 2020 for the 2020–22 performance years' LTIP.
Share ownership guidelines	• Requirement to hold shares worth 2x base salary continues to apply until one-year anniversary of departure and 1x base salary until two-year anniversary. See page 121 for current shareholding. • DBSS shares subject to deferral or LTIP shares subject to holding period count towards the requirement on a net of tax basis.

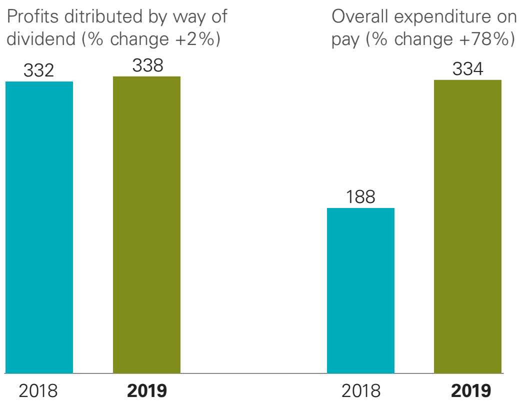
James McConville will leave the Company on 15 May 2020. His departure arrangements will be in line with the Remuneration Policy. He will receive pay in lieu of notice for the period starting on this date and ending on 9 March 2021, comprising salary, pension allowance and insurance benefits. He will receive no compensation for loss of car allowance. James' 2019 AIP will be paid in the normal way and subject to 40% deferral in line with the current policy. He will be eligible for a 2020 AIP award for the portion of the year in which he remains employed by the Group, which will be payable in March 2021 and subject to 50% deferral in line with the proposed policy. James' in-flight LTIP awards will be time pro-rated to his end date. A summary of the arrangements is set out in the table below. Actual figures will be disclosed in the 2020 Remuneration Report.

Element of Pay	Decision
Salary and benefits to 15 May 2020	• Paid in the normal way.
Termination payment	• Balance of 12 months from date of departure to one-year anniversary of announcement of departure (9 March 2021). • Payment comprises salary plus certain benefits plus pension. • Paid monthly and subject to reduction in relation to payments for the periods from 10 March 2019 onwards if a new role found.
2019 AIP	• Paid in the normal way including 40% deferral in line with the current policy.
2020 AIP	• Eligible for payment to termination date. • Paid in March 2021 with 50% deferral in line with new policy.
DBSS	• Deferred awards, including the deferred elements of the above 2019 and 2020 AIP awards, will be maintained until the third anniversary of grant.
LTIP	• Good leaver status. • In-flight awards pro-rated for period employed of the three-year period commencing on the date of grant. • Awards only exercisable on fifth anniversary of grant. • No grant in 2020 for the 2020–22 performance years' LTIP.
Share ownership guidelines	• Requirement to hold shares worth 2x base salary continues to apply until one-year anniversary of departure and 1x base salary until two-year anniversary. See page 121 for current shareholding. • DBSS shares subject to deferral or LTIP shares subject to holding period count towards the requirement on a net of tax basis.

DISTRIBUTION STATEMENT

The DRR regulations require each quoted company to provide a comparison between profits distributed by way of dividend and overall expenditure on pay.

Relative Importance (£m)



Profit distributed by way of dividend has been taken as the dividend paid and proposed in respect of the relevant financial year. For 2019 this is the interim dividend paid (£169 million) and the recommended final dividend of 23.4p per share multiplied by the total share capital issued at the date of the Annual Report and Accounts as set out in note D1 in the notes to the consolidated financial statements. No share buy-backs were made in either year.

Overall expenditure on pay has been taken as the employee costs as set out in note C2 'Administrative expenses' in the notes to the consolidated financial statements. Expenditure on pay has increased by 78% in the period which is mostly as a result of the inclusion of a full year's expenditure in relation to the Standard Life Assurance businesses which were acquired in the prior year (2018: 4 months' expenditure). An increase in BAU expenditure accounts for c.5% of the increase and is largely as a result of the increased bonus and share-based payment costs during the year.

VOTING OUTCOMES ON REMUNERATION MATTERS

The table below shows the votes cast to approve the Directors' Remuneration Report for the year ended 31 December 2018 and the Directors' Remuneration Policy at the 2019 AGM held on 2 May 2019.

	For		Against		Abstentions
	Number	% of votes cast	Number	% of votes cast	Number
To approve the Directors' Remuneration Report for the year ended 31 December 2018 (2019 AGM)	544,206,471	99.78	1,187,255	0.22	36,734
To approve the Directors' Remuneration Policy (2019 AGM)	543,758,443	99.70	1,637,633	0.30	34,384

DILUTION

The Company monitors the number of shares issued under the Phoenix Group employee share plans and their impact on dilution limits. The Company's practice is for all the executive share plans to use market purchase shares on exercise of any awards. For the Company's all-employee Sharesave scheme only, new shares are issued. Therefore the usage of shares compared to the 10% dilution limits (in any rolling 10-year period) set by the Investment Association in respect of all share plans as at 31 December 2019 is 0.63%, and no shares count towards the dilution limit for executive plans only (5% in any rolling ten-year period).

CONSIDERATION OF EMPLOYEE PAY

During 2019, proposals were shared with the Committee on a new Unified People Proposition for transitioning heritage Phoenix Group and heritage SLAL colleagues onto a common grading structure and benefit offering, balancing competitiveness and cost while mindful of the impact to colleagues. The remuneration packages for the new Executive Directors are aligned to this new Unified People Proposition.

As explained in the Notes to the Remuneration Policy table:

- when determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate;
- the Group has one consistent reward policy for all levels of employees, and therefore the same reward principles guide reward decisions for all Group employees, including Executive Directors. Remuneration packages do however differ to take into account appropriate factors in different areas of the business. The Group offers all employees a choice of share schemes (Sharesave and Share Incentive Plan) on the same basis as those offered to Executive Directors.

Additionally in 2019 Karen Green was appointed the designated Non-Executive Director for workforce engagement. Details of Karen's activities during the year are given on page 84 under the Corporate Governance Report.

GENDER PAY GAP

The two reporting entities for Gender Pay Gap reporting are Pearl Group Management Services Limited and Standard Life Assets and Employee Services Limited; details of the 2019 Gender Pay Gap are shown on page 37 of the Annual Report and Accounts.

CEO PAY RATIO

This reporting year new legislation has come into force which requires quoted companies with 250 or more UK employees to publish information on the ratio of CEO pay to UK employee pay. In accordance with these requirements we have provided in the table below the ratio of the CEO single total figure of remuneration for 2019 (as detailed on page 114 as a ratio of the equivalent single figure for the lower quartile, median and upper quartile employee (calculated on a full-time equivalent basis).

The Group reviewed the pay of the three identified employees at LQ, M and UQ and concluded that they were a fair representation of pay at the relevant quartiles of the UK employee base. Each individual was a full time employee during 2019 and received remuneration in line with Group wide remuneration policies. None received exceptional pay.

The table below sets out the salary and total single figure remuneration for the CEO and percentile employees included in the above ratios.

	Year	Methodology	CEO	25th percentile	50th percentile (median)	75th percentile
Salary	2019	Option A	700,000	24,760	37,655	57,106
Total remuneration (single figure)	2019	Option A	2,975,837	31,605	47,899	74,469
Ratio				94:1	62:1	40:1

Phoenix Group has calculated the CEO pay ratio using Option A which is the most statistically robust of the methodologies permitted by the regulation. Under this option, the full-time equivalent pay and benefits of all Group employees as at 31 December 2019 has been calculated using the same methodology as for the CEO and includes:

- The full-time equivalent annualised salary data.
- The full-time equivalent value of taxable benefits and pension contributions.
- Amounts due from incentive plans.

Phoenix Group's principles for pay setting and progression in our wider workforce are the same as for our executives – total reward being sufficiently competitive to attract and retain high calibre individuals without over-paying and providing the opportunity for individual development and career progression. The pay ratios reflect how remuneration arrangements differ as accountability increases for more senior roles within the organisation and in particular the ratios reflect the weighting towards long-term value creation and alignment with shareholder interests for the Group CEO. We are satisfied that the median pay ratio reported this year is consistent with our wider pay, reward and progression policies for employees. All employees have the opportunity for annual pay increases, annual performance payments and career progression and development opportunities.

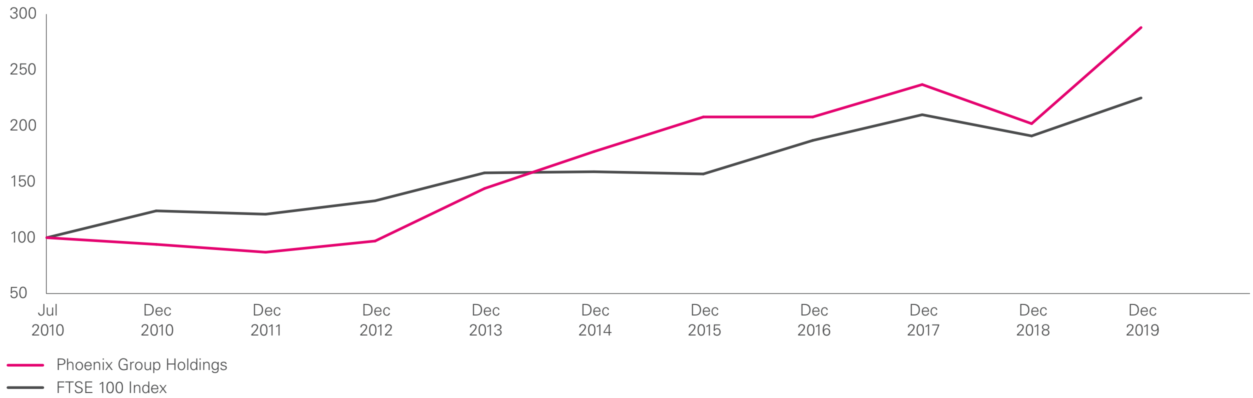
PERFORMANCE GRAPH AND TABLE

We have previously shown the value to 31 December 2019 on a TSR basis, of £100 invested in Phoenix Group Holdings plc on 5 July 2010 (the date of the Group's Premium Listing) compared with the value of £100 invested in the FTSE 250 Index (excluding Investment Trusts). To reflect Phoenix's entry to the FTSE 100 index in 2019 the graph below shows the value to 31 December 2019 on a TSR basis, of £100 invested in Phoenix Group Holdings plc on 5 July 2010 compared with the value of £100 invested in the FTSE 100 Index (excluding Investment Trusts).

The FTSE 100 Index (excluding Investment Trusts) is considered to be an appropriate comparator for this purpose as it is a broad equity index of which the Company is a constituent.

TOTAL SHAREHOLDER RETURN

Value of a 100 unit investment made on 5 July 2010



Source: Thomson Reuters Datastream

The DRR regulations also require that a performance graph is supported by a table summarising aspects of the Group CEO's remuneration for the period covered by the above graph (which will in due course be for a period of ten years).

GROUP CHIEF EXECUTIVE OFFICER REMUNERATION

		Single figure of total \remuneration (£000)	Annual variable element award rates against maximum opportunity ('AIP')	Long-term incentive vesting rates against maximum opportunity ('LTIP')
2019	Clive Bannister	2,976	92%	68.5%
2018	Clive Bannister	2,567[1]	86%	49.5%
2017	Clive Bannister	2,888	86%	64%
2016	Clive Bannister	2,878	84%	55%
2015	Clive Bannister	2,867	82%	57%
2014	Clive Bannister	3,104	68%	57%[2]
2013	Clive Bannister	2,737	69%	67%[2]
2012	Clive Bannister	1,583	69%	n/a[3]
2011	Clive Bannister[4]	1,333	73%	n/a[3]
	Jonathan Moss[4,5]	704	n/a	n/a

1 The single figure of total remuneration for 2018 has been restated and now reflects the actual price of shares on the day the 2016 LTIP vested (2 June 2019, 671.1p per share) rather than the three-month average share price to 31 December 2018 (600.04p per share) which was required to be used last year for the single figure of total remuneration.
2 The long-term incentive vesting rate for 2013 is shown at 67% and for 2014 is shown as 57%. In both years the Group Chief Executive Officer decided to waive voluntarily any entitlement in excess of two-thirds of the shares which would otherwise have vested.
3 Long-term incentive vesting rates against maximum opportunity values are not applicable for 2011 and 2012 due to no awards vesting in those financial years.
4 Jonathan Moss left the role of Group Chief Executive Officer on 7 February 2011 and left Phoenix Group on 29 March 2011. Clive Bannister joined Phoenix Group on 7 February 2011 and was appointed to the Board as a Director on 28 March 2011.
5 Jonathan Moss' 2011 single figure of total remuneration does not include compensation for loss of office.

PERCENTAGE CHANGE IN PAY OF THE GROUP CHIEF EXECUTIVE OFFICER 2018 TO 2019

In accordance with the DRR regulations, the table below provides a comparison of the percentage change in the prescribed pay elements of the Group Chief Executive Officer (salary, taxable benefits and annual incentive outcomes) between financial years 2018 and 2019 and the equivalent percentage changes in the average of all staff (representing all permanent staff during 2018 and 2019 on a matched basis). This group was selected as being representative of the wider workforce using the same process as was used for this comparison in last year's annual report and accounts although these figures now include both heritage Phoenix and heritage SLAL entities.

Year-on-year % change	Salary	Taxable Benefits	Annual incentive	Total
Group Chief Executive Officer	0.00%	0.82%	7.95	4.43%
Staff	3.51%	3.60%	1.70%	3.21%

There has been minimal movement overall in the level of salary and benefits for the Group Chief Executive Officer; the small increase in taxable benefits is due to a rise in the cost of funding for Private Medical Insurance. There has been an increase in the annual Incentive figure as a result of the higher outcome under the Corporate element of the 2019 AIP resulting in a small increase in overall remuneration.

Staff more generally have seen a slight overall increase due to a number of factors:

- The inclusion of the Standard Life Assurance businesses increased the population significantly and currently our two groups of colleagues have separate benefit provisions.
- The Standard Life Assurance businesses continued operating a performance related pay structure for 2019 and therefore annual salary increases varied, however the median salary increase across the overall Phoenix Group remained static at 2.5%.
- The increase in benefit value is largely due to Standard Life's increase in the cost of funding for Private Medical Insurance.
- There has been a small increase in average annual incentive for employees due to the higher outcome under the Corporate element of the 2019 AIP, however this overall increase has also been moderated by a wider distribution of performance ratings following a change from a 5-scale to a 6-scale performance management system.

DIRECTORS' SERVICE CONTRACTS

The dates of contracts and letters of appointment and the respective notice periods for Directors are as follows:

Executive Directors' contracts

Name	Date of appointment	Date of contract	Notice period from either party (months)
Clive Bannister	28 March 2011	7 February 2011	12
James McConville	28 June 2012	28 May 2012	12
Andy Briggs	1 January 2020	7 November 2019	12
Rakesh Thakrar (proposed director)	15 May 2020	6 March 2020	12

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards as long as these are not deemed to interfere with the business of the Group. The Executive Directors are entitled to retain any external fees. During 2019, Clive Bannister received £45,000 from Punter Southall Group in respect of an external directorship. He is also Chairman of the Museum of London for which he receives no payment. James McConville received £112,000 from Tesco Personal Finance plc.

Non-Executive Directors' contracts

Name	Date of letter of appointment	Date of joining the Phoenix Group Holdings Plc Board[1]	Appointment end date	Unexpired term (months)
Alastair Barbour	1 November 2018	1 October 2013	15 May 2020	2
Campbell Fleming	1 November 2018	31 August 2018	31 August 2021	17
Karen Green	1 November 2018	1 July 2017	1 July 2020	3
Nicholas Lyons	1 November 2018	31 October 2018	31 October 2021	19
Wendy Mayall	1 November 2018	1 September 2016	15 May 2020	2
John Pollock	1 November 2018	1 September 2016	15 May 2020	2
Nicholas Shott	1 November 2018	1 September 2016	15 May 2020	2
Belinda Richards	1 November 2018	1 October 2017	1 October 2020	6
Kory Sorenson	1 November 2018	1 July 2014	15 May 2020	2
Mike Tumilty	14 August 2019	1 September 2019	1 September 2022	29

1 All Directors above, other than Mike Tumilty who joined the Board on 1 September 2019, joined the Phoenix Group Holdings plc Board on 15 October 2018 and services are considered to have commenced with effect from 13 December 2018.

The above tables have been included to comply with UKLA Listing Rule 9.8.8. In the event of cessation of a Non-Executive Director's appointment (excluding the Chairman) they would be entitled to a one-month notice period. The Chairman, as detailed in his letter of appointment, would be entitled to a six-month notice period.

REMUNERATION COMMITTEE GOVERNANCE

The terms of reference of the Committee are available at www.thephoenixgroup.com. The main determinations of the Committee in 2019 in respect of the application of the Remuneration Policy are summarised in the Committee Chairman's letter to shareholders at the start of the Remuneration Report.

The table below shows the independent Non-Executive Directors who served on the Committee during 2019 and their date of appointment:

Member	From	To
Kory Sorenson (Committee Chair from 11 May 2017)	3 July 2014	To date
Karen Green	1 July 2017	To date
Belinda Richards	2 July 2019	To date
Nicholas Shott	20 October 2016	To date

Under the Committee's Terms of Reference, the Committee meets at least twice a year but more frequently if required. During 2019, seven Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 89.

Consistent with the requirements of Solvency II, the Committee is responsible for establishing, implementing, overseeing and reviewing the Company-wide remuneration policy in the context of business strategy and changing risk conditions. The Company-wide remuneration policy focuses on ensuring sound and effective risk management so as not to encourage risk-taking outside of the Company's risk appetite. None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

REMUNERATION COMMITTEE ACTIVITIES IN 2019

Committee activities	6 February	27 February	1 May	5 August	16 October	26 November
Consideration of risk, control and conduct matters	✔	✔			✔	
Summary of engagement with shareholders and consideration of feedback			✔	✔		✔
Executive Directors' remuneration						
Review of fixed and variable remuneration	✔	✔	✔		✔	✔
Annual and long-term incentive performance measures, targets and outcomes	✔	✔		✔	✔	✔
Directors' remuneration policy triennial review			✔	✔	✔	
Senior management remuneration						
Review remuneration proposals on recruitment and on termination of senior employees			✔	✔		✔
Review of fixed and variable remuneration	✔	✔	✔	✔	✔	
Annual and long-term incentive performance measures, targets and outcomes	✔	✔		✔	✔	✔
All employee remuneration						
All employee discretionary incentive schemes including sales incentives	✔	✔	✔		✔	✔
Organisation reward design following acquisition			✔		✔	
Workforce engagement mechanisms, gender pay and pay ratio			✔	✔		✔

ADVICE

During the year, the Committee received independent remuneration advice from its appointed adviser, PwC, who is a member of the Remuneration Consultants Group (the professional body for remuneration consultants) and adheres to its code of conduct. The Remuneration Committee was satisfied that the advice provided by PwC was objective and independent.

PwC also provided general consultancy services to management during the year including support on other Board and Risk matters and technical advice regarding share schemes. Separate teams within PwC provided unrelated services in respect of tax, assurance, risk consulting and transaction support during the year. The Committee is satisfied that these activities did not compromise the independence or objectivity of the advice it has received from PwC as remuneration committee advisers.

PwC's fees for work relating to the Committee for 2019, including support regarding the triennial policy review, Executive Director succession, and business as usual as described in the table above, were £246,528. These were charged on the basis of the firm's standard terms of business for advice provided.

The Committee assesses the performance of its advisers annually, the associated level of fees and reviews the quality of advice provided to ensure that it is independent of any support provided to management.

The Group Chief Executive Officer, Group HR Director and Group Finance Director and delegates, attend, by invitation, various Committee meetings during the year. No executive is ever permitted to participate in discussions or decisions regarding his or her own remuneration.

The Committee consults with the Chief Risk Officer (without management present) on a regular basis. The Chief Risk Officer is asked to detail the extent to which the company has operated within its stated risk appetite during the year and to keep the Committee informed of any risk-related concerns that required the Committee to consider using its judgement to moderate incentive plan outcomes.

APPROVAL

This report in its entirety has been approved by the Remuneration Committee and the Board of Directors and signed on its behalf by:

Kory Sorenson
Remuneration Committee Chair
6 March 2020

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2019.

Phoenix Group Holdings plc is incorporated in the United Kingdom (registered no. 11606773) and has a Premium Listing on the London Stock Exchange.

SHAREHOLDERS

Dividends

Dividends for the year are as follows:

Ordinary shares	
Paid interim dividend	23.4p per share (2018: 22.6p per share)
Recommended final dividend	23.4p per share (2018: 23.4p per share)
Total ordinary dividend	46.8p per share (2018: 46p per share)

As a result of regulatory changes applicable to the Group under Solvency II, dividends declared in respect of the Company's ordinary shares must be capable of being cancelled and withheld or deferred at any time prior to payment. This is in order that the Company's ordinary shares can be counted towards Group capital. Accordingly, the final dividend will be declared on a conditional basis and the Directors reserve the right to cancel or defer the recommended dividend. The Directors do not expect to exercise this right other than where they believe that it may be necessary to do so as a result of legal or regulatory requirements.

SHARE CAPITAL

The issued share capital of the Company was increased by 315,730 during 2019 which related to shares issued under the Company's Sharesave Scheme.

At 31 December 2019, the issued ordinary share capital totalled 721,514,944. Subsequently, 5,985 ordinary shares have been issued in 2020 in connection with the Group's Sharesave Scheme to bring the total in issue to 721,520,929 at the date of this report.

Full details of the issued and fully paid share capital as at 31 December 2019 and movements in share capital during the period are presented in note D1 to the IFRS consolidated financial statements.

Subject to obtaining shareholder approval for the renewal of this authority at the forthcoming AGM on 15 May 2020, the Company is authorised to make purchases of its own shares and make payment for the redemption or purchase of its own shares in any manner permitted by the Companies Act 2006 including without limitation, out of capital, profits, share premium or the proceeds of a new issue of shares. The Company held no treasury shares during the year or up to the date of this report.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association (the 'Company's Articles') which are available on the Company's website at www.thephoenixgroup.com/about-us/corporate-governance/articles-of-association.aspx.

Where the Phoenix Group Employee Benefit Trust ('EBT') holds shares for unvested awards, the voting rights for these shares are exercisable by the trustees of the EBT at their discretion, taking into account the recommendations of the Group.

Restrictions on transfer of shares

Under the Company's Articles, the Directors may in certain circumstances refuse to register transfers of shares. Certain restrictions on the transfer of shares may be imposed from time to time by applicable laws and regulations (for example, insider trading laws), and pursuant to the Listing Rules of the Financial Conduct Authority ('FCA') and the Group's own share dealing rules whereby Directors and certain employees of the Group require individual authorisation to deal in the Company's ordinary shares.

Substantial shareholdings

Information provided to the Company pursuant to the FCA's Disclosure and Transparency Rules is published on a Regulatory Information Service and on the Company's website. As at 4 March 2020, the Company had been notified of the following significant holdings of voting rights in its shares.

	Number of voting rights in shares	Percentage of shares in issue
Standard Life Aberdeen plc	179,249,478	24.84%
Ameriprise Financial Inc. and its group	42,847,290	5.93%
BlackRock Inc.	38,875,162	5.38%
Aviva plc and its subsidiaries	36,512,061	5.06%
Artermis Investment Management LLP	36,250,486	5.06%

Annual General Meeting ('AGM')

The AGM of the Company will be held at Saddlers Hall, 40 Gutter Lane, London, EC2V 6BR on Friday 15 May 2020 at 10.00am.

A separate notice convening this meeting will be distributed to shareholders in due course and will include an explanation of the items of business to be considered at the meeting.

Investor Communications
The Company's Annual Report and Accounts, together with the Company's Interim Report and other public announcements and presentations, are designed to present a fair, balanced and understandable view of the Group's activities and prospects. These are available on the Company's website at www.thephoenixgroup.com, along with a wide range of relevant information for private and institutional investors, including the Company's financial calendar.

BOARD
Board of Directors
The membership of the Board of Directors during 2019 is given within the Corporate Governance section on pages 78 and 79, which is incorporated by reference into this report. During 2019 and up to the date of this report, the following changes to the Board took place:

One of SLA's Nominated Directors, Barry O'Dwyer resigned from the Board on 28 June 2019 and was replaced by Mike Tumility on 1 September 2019.

Details of related party transactions which took place during the year with Directors of the Company and consolidated entities where Directors are deemed to have significant influence, are provided in the Directors' Remuneration Report and in note I4 to the IFRS consolidated financial statements.

The rules about the appointment and replacement of Directors are contained in the Company's Articles. These state that a Director may be appointed by an ordinary resolution of the shareholders or by a resolution of the Directors. If appointed by a resolution of the Directors, the Director concerned holds office only until the conclusion of the next AGM following the appointment.

In accordance with the UK Corporate Governance Code, Directors must stand for election/re-election annually. The Board of Directors will be unanimously recommending that all of the Directors (apart from James McConville, who is not standing for re-election) should be put forward for election/re-election at the forthcoming AGM to be held on 15 May 2020.

The Articles give details of the circumstances in which Directors will be treated as having automatically vacated their office and also state that the Company's shareholders may remove a Director from office by passing an ordinary resolution.

The powers of the Directors are determined by the Companies Act 2006, the provisions of the Company's Articles and by any valid directions given by shareholders by way of special resolution.

The Directors have been authorised to allot and issue securities and grant options over or otherwise dispose of shares under the Company's Articles.

Directors' remuneration and interests
A report on Directors' remuneration is presented within the Directors' Remuneration Report including details of their interests in shares and share options or any rights to subscribe for shares in the Company.

Directors' indemnities
The Company has entered into deeds of indemnity with each of its Directors whereby the Company has agreed to indemnify each Director against all losses incurred by them in the exercise, execution or discharge of their powers or duties as a Director of the Company, provided that the indemnity shall not apply when prohibited by any applicable law.

The deeds of indemnity remain in-force as at the date of signature of this Directors' Report.

Directors' conflicts of interest
The Board has established procedures for handling conflicts of interest in accordance with the Companies Act 2006 and the Company's Articles.

On an ongoing basis, Directors are responsible for informing the Company Secretary of any new, actual or potential conflicts that may arise.

Directors' and Officers' liability insurance
The Company maintains Directors' and Officers' liability insurance cover which is renewed annually.

GOVERNANCE

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also provides details of any key events affecting the Company (and its consolidated subsidiaries) since the end of the financial year. The Strategic Report includes details of the Group's cash flow and solvency position, including sensitivities for both. Principal risks and their mitigation are detailed on pages 52 to 56. In addition, the IFRS consolidated financial statements include, amongst other things, notes on the Group's borrowings (note E5), management of its financial risk including market, credit and liquidity risk (note E6), its commitments and contingent liabilities (notes I5 and I6) and its capital management (note I3). The Strategic Report (on pages 2 to 72) sets out the business model and how the Group creates value for shareholders and policyholders.

The Board has followed the requirements of the UK Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014) when performing its going concern assessment. As part of its comprehensive assessment of whether the Group and the Company are a going concern, the Board has undertaken a review of the liquidity and solvency of the Group under both normal and stressed conditions as at the date of preparation of the statement of consolidated financial position.

Having thoroughly considered the going concern assessment, including a detailed review of the regulatory capital and cash flow positions of each principal subsidiary company and the availability across the Group of a range of management actions, the Board has concluded that there are no material uncertainties that may cast significant doubt about the Group and the Company's ability to continue as a going concern.

The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the IFRS financial statements for the year ended 31 December 2019.

Viability statement

The Viability Statement, as required by the UK Corporate Governance Code, has been undertaken for a period of five years to align to the Group's business planning and is contained in the Risk Management section on page 57.

Corporate governance statement

The disclosures required by section 7.2 of the FCA's Disclosure Guidance and Transparency Rules can be found in the Corporate Governance Report on pages 81 to 98 which is incorporated by reference into this Directors' Report and comprises the Company's Corporate Governance Statement.

The disclosures required in respect of the Company's diversity policy are addressed in the Strategy and KPIs section of the Strategic Report on page 30. The UK Corporate Governance Code (the 'Code') applies to the Company and full details on the Company's compliance with the Code are included in the Corporate Governance Report. The Code is available on the website of the Financial Reporting Council – www.frc.org.uk.

Greenhouse gas emissions

All disclosures concerning the Group's greenhouse emissions are contained in the Environmental Report forming part of the Strategic Report on pages 69 and 70.

Articles of Association

Changes to the Company's Articles require prior shareholder approval.

The Articles are available on the Company's website at www.thephoenixgroup.com/about-us/corporate-governance/articles-of-association.aspx.

Re-Appointment of the Auditors

Ernst & Young LLP ('EY') has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 15 May 2020.

There is no cap on auditor liability in place in relation to audit work carried out on the IFRS consolidated financial statements and the Group's UK subsidiaries' individual financial statements.

Details of fees paid to EY during 2019 for audit and non-audit work are disclosed in note C4 to the IFRS consolidated financial statements.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Group Company Secretary

The Group Company Secretary throughout the 2019 financial period was Gerald Watson.

CONTRACTUAL/OTHER

Significant agreements impacted by a change of control of the Company

There are change of control clauses contained in certain of the Group's financing agreements. The £1.25 billion revolving credit facility and £500 million acquisition facility have provisions which would enable the lending banks to require repayment of all amounts borrowed following a change of control.

All of the Company's employee share and incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans.

Apart from the aforementioned, there are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group.

Disclosures under listing rule 9.8.4R

For the purposes of Listing Rule 9.8.4C, the information required to be disclosed under Listing Rule 9.8.4R can be found within the following sections of the Report and Accounts:

Section	Requirement	Location
1	Statement of interest capitalised	Note E5 to the Consolidated Financial Statements
2	Publication of unaudited financial information	Not applicable
3	Deleted	Not applicable
4	Details of long-term incentive schemes	Directors' Remuneration Report
5	Waiver of emoluments by a Director	Directors' Remuneration Report
6	Waiver of any future emoluments by a Director	Directors' Remuneration Report
7	Non pre-emptive issue of equity for cash	Not applicable
8	As per 7, but for major subsidiary undertakings	Not applicable
9	Parent participation in any placing of a subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Controlling shareholder provision of services	Not applicable
12	Shareholder dividend waiver	Not applicable
13	Shareholder dividend waiver – future periods	Not applicable
14	Controlling shareholder agreements	Not applicable

Directors Report

STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS OF PHOENIX GROUP HOLDINGS PLC

The Directors are responsible for the preparation of the Annual Report and Accounts, the Strategic Report, the Directors' Report, the Directors' Remuneration Report, the consolidated financial statements and the Company financial statements in accordance with applicable law and regulations.

The Board has prepared a Strategic Report which provides an overview of the development and performance of the Group's business for the year ended 31 December 2019, covers the future developments in the business of Phoenix Group Holdings plc and its consolidated subsidiaries and provides details of any important events affecting the Company and its subsidiaries after the year-end. For the purposes of compliance with DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the 'Management Report' can be found in the Strategic Report and this Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference.

The Directors have prepared the consolidated financial statements and the Company financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and accounting estimates that are reasonable and prudent.
- state whether IFRS, as adopted by the EU, have been followed, subject to any material departures disclosed and explained in the Group and the Company financial statements.
- repare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for making, and continuing to make, the Company's Annual Report and Accounts available on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors section on pages 78 and 79, confirm that, to the best of their knowledge:

- The Group's consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the Company.
- The Strategic Report and the Corporate Governance and Directors' Report include a fair review of the development and the performance of the business and the position of the Company and its consolidated subsidiaries taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the Directors as at the date of this report consider that the Annual Report and Accounts, taken as a whole, provides users (who have a reasonable knowledge of business and economic activities) with the information necessary for shareholders to assess the Group's position,performance, business model and strategy, and is fair, balanced and understandable.

The Strategic Report and the Directors' Report were approved by the Board of Directors on 6 March 2020.

By order of the Board

Clive Bannister
Group Chief Executive Officer

James McConville
Group Finance Director And Group Director, Scotland

6 March 2020

FINANCIALS

IN THIS SECTION

Independent Auditor's Report 139
IFRS Consolidated Financial Statements 149
Notes to the Consolidated Financial Statements 154
Parent Company Accounts 244
Notes to the Parent Financial Statements....................................... 247
Additional Life Company Asset Disclosures....................................... 255
Additional Capital Disclosures 262
Alternative Performance Measures 264

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion:

- Phoenix Group Holdings plc's consolidated financial statements and parent company financial statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU');
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the consolidated financial statements of Phoenix Group Holdings plc and its subsidiaries (collectively 'the Group') and the parent company financial statements which comprise:

Group	Parent Company
The statement of consolidated financial position as at 31 December 2019	The statement of financial position as at 31 December 2019
The consolidated income statement for the year then ended	The statement of cash flows for the year then ended
The consolidated statement of comprehensive income for the year then ended	The statement of changes in equity for the year then ended
The statement of consolidated cash flows for the year then ended	Related notes 1 to 20 to the financial statements
The statement of consolidated changes in equity for the year then ended	
Related notes A1 to I7 to the consolidated financial statements (except for note I3 which is marked as unaudited), including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 52 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 135 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 133 in the Annual Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 57 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Valuation of insurance contract liabilities, comprising the following risk areas: – actuarial assumptions; – actuarial modelling; and – data. • Valuation of certain complex and illiquid financial investments • Recoverability of intangible assets arising from the acquisition of Standard Life Assurance Limited and other associated entities
Audit scope	• We performed an audit of the complete financial information of the Group Function, Phoenix Life Division and Standard Life Assurance Limited and audit procedures on specific balances for Other Companies. Our scope is explained further on pages 143 to 144. • The components where we performed full or specific audit procedures accounted for more than 99% of the equity and profit before tax of the Group.
Materiality	• Overall Group materiality of £100 million (2018: £100 million) which represents 2.1% (2018: 1.9%) of total equity attributable to owners of the parent ('Group equity').

Key audit matters

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

Risk

Valuation of insurance contract liabilities (£97.0bn; 2018: £92.6bn)

Refer to the Audit Committee Report (page 96); Critical accounting estimates (page 155); Accounting policies and note F1 of the consolidated financial statements (pages 194 to 196)

We considered the valuation of insurance contract liabilities to be a significant risk for the Group. Specifically, we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgments about future events, both internal and external to the business for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is conditional upon the accuracy and completeness of the data.

We have split the risks relating to the valuation of insurance contract liabilities into the following component parts:

- actuarial assumptions;
- actuarial modelling; and
- data.

The specific audit procedures performed to address the significant risk are set out below. In addition, we assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements as this provided important audit evidence over the valuation of insurance contract liabilities.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial assumptions *There has been no change in our assessment of this risk from the prior year.* Economic assumptions are set by management taking into account market conditions as at the valuation date. Non-economic assumptions such as future expenses, longevity and mortality are set based on the Group's past experience, market experience, market practice, regulations and expectations about future trends. The assumptions that we consider to have the most significant impact are the base and trend longevity, persistency and expenses.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, using EY actuaries as part of our audit team, we performed the following procedures: • obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating key actuarial assumptions; • challenged and assessed whether the methodology and assumptions applied were appropriate based on our knowledge of the Group, industry standards and regulatory and financial reporting requirements; • reviewed and challenged the results of management's experience analysis, including the base longevity and persistency, to assess whether these justified the adopted assumptions; • in respect of longevity improvements we have evaluated the use of the chosen industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to validate that it was appropriate relative to the industry; • assessed the expense assumptions adopted by management with reference to the management service agreement ('MSA') between the Phoenix Life and Service companies; • Performed procedures to test that the assumptions used in the year end valuation were consistent with the approved basis; and • benchmarked the demographic and economic assumptions against those of other comparable industry participants. We performed full scope audit procedures over this risk area in two components and specific scope audit procedures in one component, which covered 100% of the risk amount.	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, industry practice and the financial and regulatory requirements.
Actuarial modelling *There has been no change in our assessment of this risk from the prior year.* We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £92.0bn of the £97.0bn insurance contract liabilities are modelled using the core actuarial modelling systems, with the residual balance modelled outside these systems to cater for any additional required liabilities not reflected in the model. We consider the key risks to relate to i) model developments applied to the core actuarial models and ii) the appropriateness of the calculations that are applied outside of the core actuarial model.	To obtain sufficient audit evidence to conclude on core actuarial modelling systems and balances calculated outside these systems, using EY actuaries we performed the following procedures: • obtained an understanding of management's process for model developments to the core actuarial system and tested the design, implementation and operating effectiveness of key controls over that process; • challenged and evaluated the methodology, inputs and assumptions applied to model changes made in the core actuarial modelling systems during the year; • reviewed the governance process around model changes by review of the relevant committee minutes; • assessed the results of management's analysis of movements in insurance contract liabilities to corroborate that the actual impact of changes to models was consistent with that expected when the model change was implemented; and • stratified the components of the balance modelled outside the core actuarial system and focused our testing on those that, in our professional judgment, present a higher risk of material misstatement. As part of the testing, we gained an understanding of the rationale for balances calculated outside of the core actuarial system and assessed the appropriateness of the applied calculation methodology. We performed full scope audit procedures over this risk area in two components and specific scope audit procedures in one component, which covered 100% of the risk amount.	We determined that the models used are appropriate, that changes to the models were implemented as intended and that controls over management's processes for modelling insurance contract liabilities outside of the actuarial modelling system were operating effectively. We also determined that liabilities modelled outside these core actuarial modelling systems are reasonable.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Data *There has been no change in our assessment of this risk from the prior year.* The insurance contract data held on policy administration systems ('the policyholder data') is a key input into the valuation process. The valuation of insurance contract liabilities is therefore conditional upon the accuracy and completeness of the data used.	To obtain sufficient audit evidence to assess the integrity of policyholder data we performed the following procedures: • obtained an understanding of and tested the design and operating effectiveness of the key controls, including information technology general controls, over management's data collection, extraction and validation process; • for Outsourced Service Providers ('OSP') where we have placed reliance on the Service Organisation Controls ('SOC1') report, we have reviewed the SOC1 report and determined the impact of any identified control exceptions; • for OSPs where we do not receive a SOC1 report we have obtained an understanding of the process over data extraction and input into the actuarial models and performed direct testing of the design and operating effectiveness of the key controls; • performed substantive procedures including agreeing policyholder documentation to the policyholder data used in the actuarial model based on a sample of policies; • assessed the integrity of policy level data, performing corroborative testing on i) changes to static data during the period; ii) unexpected policy count movements between reporting periods; and iii) unusual trends and anomalies in the data, based upon our knowledge of the Group's products, industry standards and through using data analytics; • confirmed that the actuarial model data extracts provided by the OSPs were those used as an input to the actuarial model; • assessed the appropriateness of management's grouping of data for input into the actuarial model; and • tested the reconciliations of premiums and claims information extracted from the policy administration systems to the actuarial data used in the actuarial models. We performed full scope audit procedures over this risk area in two components and specific scope audit procedures in one component, which covered 100% of the risk amount.	We determined based on our audit work that the data used for the actuarial model inputs is materially complete and accurate.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of certain complex and illiquid financial investments (£4.9bn; 2018: £3.6bn) *Whilst we consider the risk to be similar in nature, due to the combination of increased size of the modelled debt securities and level of judgment involved in valuation as well as the potential impact on the shareholders arising from any misstatements, we believe the identified risk to have a higher magnitude of potential misstatement than in the previous year.* *Refer to the Audit Committee Report (page 96); Critical accounting estimates (page 155); Accounting policies and notes E1 and E2 of the consolidated financial statements (pages 171 to 180).* • The extent of judgment applied by management in valuing the Group's financial investments varies with the nature of securities held, the markets in which they are traded and the valuation methodology applied. • Observable inputs are not readily available for the valuation of equity release mortgages ('ERM') financial investments and the modelled debt securities, such as private placements, local authority loans, infrastructure loans and commercial real estate loans. Consequently, management use models and other inputs to estimate their value. • We consider that the key risks on the valuation of ERM financial investments relates to: i) assumptions as these are largely based on non-observable inputs and are highly judgmental, and ii) the completeness and accuracy of data feeding the valuation model. • We consider that the key risks related to valuation of modelled debt securities to be the (i) use of complex valuation methodologies as opposed to observable prices; ii) significant judgments involved in setting the spread above risk-free rate; and iii) most notably, the subjectivity surrounding the selection of the comparable bonds to derive that spread.	Using EY valuation specialists and actuaries we tested valuation of ERMs and modelled debt securities. To obtain sufficient audit evidence to conclude on the valuation of ERMs, we: • tested the design and operating effectiveness of key controls over management's process in respect of the valuation of ERMs; • tested the completeness of the ERM financial investments and underlying data at the period end through independent confirmation from the OSPs; • tested the accuracy of mortgage data used in the valuation model by agreeing a sample of new loans to supporting evidence and validating any movements on static data over the period; • evaluated the methodology, inputs and assumptions used to value the ERM financial investments including the No Negative Equity Guarantee ('NNEG') (such as house price inflation, residential house price volatility, longevity improvement and base mortality, as well as economic assumptions such as discount rate); • validated the key assumptions by comparing them to published market benchmarks and demographic and economic assumptions used by other industry participants, to confirm that key valuation inputs were consistent with industry norms and our understanding of the instrument type; and • developed our own independent model to value the ERM loans and compared the output to the results produced by the Group. To obtain sufficient audit evidence to conclude on the valuation of modelled debt securities, we: • reviewed the SOC1 report of the OSP covering period to 30 September 2019 and determined the impact of any identified control exceptions; • obtained the bridging letter for the period 1 October 2019 to 31 December 2019 to confirm that the controls over the valuation of modelled debt securities were operating during the period. In addition, we tested a sample of these controls in the bridging period to confirm they were operating effectively; and • engaged EY valuation specialists to calculate an independent range of reasonable values for a sample of investments using an independent valuation model and considering reasonable alternate assumptions. We performed full scope audit procedures over this risk area in two components, which covered 100% of the risk amount.	Based on our procedures performed on the ERM financial investments and the modelled debt securities, we are satisfied that the valuation of these complex and illiquid assets is reasonable.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of intangible assets arising from the acquisition of Standard Life Assurance Limited and other associated entities (£2.57bn; 2018: £2.87bn) *This is a new key audit matter for 31 December 2019.* *Refer to the Audit Committee Report (page 96); Critical accounting estimates (page 156); Accounting policies and note G2 of the consolidated financial statements (pages 214 to 216)* On 31 August 2018, the Group acquired Standard Life Assurance Limited, Standard Life International Designated Activity Company, Standard Life Assets and Employee Services Limited and other related entities (collectively 'Standard Life') from Standard Life Aberdeen plc ('SLA plc') for total consideration of £2,994 million. This gave rise to the recognition of intangible assets relating to acquired in force business ('AVIF') and the Client Service and Proposition Agreement ('CSPA') entered into between the Group and SLA plc. The 2019 financial year is the first full year following the acquisition of Standard Life and as required management performed a recoverability assessment on the acquired intangible assets to satisfy themselves that the carrying value remains appropriate. Recoverability assessment of these intangible assets involves consideration of a number of judgmental and sensitive assumptions such as: • market movements and their impact on economic assumptions such as cost of capital; • significant changes to core valuation assumptions, being: lapses, longevity, late retirements; • any change in experience on earnings relating to the CSPA. This subjects value of these assets to a higher risk of material misstatement.	To obtain sufficient audit evidence to assess recoverability of intangible assets arising from the acquisition of Standard Life, using EY actuaries we performed the following procedures: • understood and evaluated management's process, model and assumptions supporting the recoverability assessment; • tested the controls over the completeness and accuracy of the data used in the recoverability assessment; • challenged management's assessment of impairment indicators by considering current market factors and assumption changes not modelled in the fair value exercise at the acquisition date and assessed their impact on the Standard Life AVIF and CSPA values as at 31 December 2019; and • obtained management's expectations of future profitability of the acquired entities and challenged the assumptions applied by management by comparing key assumptions and judgments with experience of the wider market and that of Phoenix.	• Based on our procedures performed on the recoverability of intangible assets arising from the acquisition of Standard Life, we are satisfied that there are no impairment indicators present as at 31 December 2019.

In the prior year, our auditor's report included a key audit matter in relation to accounting for the acquisition of Standard Life Assurance Limited and other associated entities as the acquisition transaction was completed in the 2018 financial year.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each reporting unit ('reporting component') within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each reporting component.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identified four reporting components of the Group. The Group reporting components consist of Phoenix Life Division, Standard Life Assurance Limited ('SLAL'), the Group Function and Other Companies. In the Phoenix Life Division component, the most significant insurance companies are Phoenix Life Assurance Limited and Phoenix Life Limited. Standard Life Assurance Limited is the most significant company of the respective component. The Group Function consists of Group entities that primarily hold external debt, PA (GI) Limited and the pension schemes of the Group. The Other Companies include the Phoenix Life service companies and Standard Life International Designated Activity Company ('SLINTL').

Details of the four reporting components which were audited by component teams are set out below:

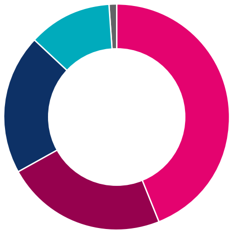
Component	Scope	Auditor
Phoenix Life Division	Full	EY
Standard Life Assurance Limited ('SLAL')	Full	EY
Group Function	Full	EY
Other Companies	Specific	EY

Of the four components selected, we performed an audit of the complete financial information of three components ('full scope components') which were selected based on their size or risk characteristics. For the remaining Other Companies ('specific scope components'), we performed audit procedures on specific accounts of Phoenix Life and SLAL service companies (provisions, accruals and deferred income, external revenue, wages and salaries and administrative expenses) and of SLINTL (cash and cash equivalents and insurance contract liabilities).

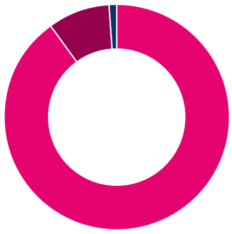
The reporting components where we performed audit procedures accounted for more than 99% (2018: 99%) of the Group's equity and the Group's profit before tax. For the current year, the full scope components contributed 87% (2018: 93%) of the Group's equity and 90% (2018: 97%) of the Group's profit before tax. The specific scope components contributed 12% (2018: 6%) of the Group's equity and 9% (2018: 2%) of the Group's profit before tax. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Equity



Profit before tax



Changes from the prior year

Management completed the Part VII transfer of the European business of SLAL into SLINTL. In response to the increased size of SLINTL, additional accounts were brought in scope for the purposes of Group reporting.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit team provided detailed audit instructions to the component teams which included guidance on areas of focus, including the relevant risks of material misstatement detailed above, and set out the information required to be reported to the primary audit team.

Of the three full scope components, audit procedures were performed on one of these directly by the primary audit team whilst the remaining two components were audited by the component audit teams. For Other Companies, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary audit team followed a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visited each of the components where the Group audit scope was focused at least once a year and the most significant of them more than once a year. For all full scope components, in addition to the component visits, the primary audit team reviewed key working papers and participated in the component teams' planning, including the component teams' discussion of fraud and error. The primary audit team attended the closing meetings with the management of the Phoenix Life Division and SLAL and attended key Audit Committee meetings at the components.

For the specific scope component, the primary audit team have reviewed the audit procedures performed by the component team on the specific accounts.

The work performed on the components, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the consolidated financial statements as a whole.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £100 million (2018: £100 million), which is 2.1% (2018: 1.9%) of Group equity. Whilst profit before tax or operating profit are common bases used across the life insurance industry and might be an appropriate measure for an open business, we believe that the use of equity as the basis for assessing materiality remains more appropriate given that the Group is primarily a closed life assurance consolidator and as such equity provides a more stable, long-term measure of value. We note also that equity more closely correlates with key Group performance metrics such as Solvency II capital requirements and Own Funds. However, as these measures are non-GAAP measures, we consider equity to be more appropriate.

We determined materiality for the parent company to be £109 million (2018: £82 million), which is 2% of the parent company equity attributable to owners. We have used a capital based measure for determining materiality for consistency with the approach taken for the Group where we consider equity to be the most appropriate basis when considering against other measures such as IFRS profit before tax with its inherent volatility considering the nature of the parent company as a holding company.

During the course of our audit, we reassessed initial materiality and concluded that materiality assessed at planning stages of our audit remained appropriate.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2018: 50%) of our planning materiality, namely £50 million (2018: £50 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £13 million to £30 million (2018: £10 million to £28 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £5 million (2018: £5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 135 and 255 to 272, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the 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 financial statements 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 135 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 92 to 96 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 133 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of Directors
As explained more fully in the Directors' Responsibilities Statement set out on page 135, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect of irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect noncompliance with all laws and regulations.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and its subsidiaries and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') and UK Listing Authority ('UKLA). We obtained a general understanding of how Phoenix Group Holdings is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Executive Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the consolidated financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgment, including complex transactions, performance targets, external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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

Other matters we are required to address

- We were appointed by the Company Directors on 13 December 2018 and signed an engagement letter on 20 February 2019 to audit the financial statements for the period ending 31 December 2018 and subsequent financial periods. This is our second year as auditors to the Group.
- In November 2019 we identified that non-audit services which are prohibited under the FRC's Ethical Standard, had been undertaken outside of the UK during the period December 2018 to March 2019. These related to assisting 4 non-UK investment funds with their EU withholding tax claims – these funds are consolidated by the Phoenix Group. Currently no withholding tax has been recovered by the funds as the claims are pending. Therefore, there is no impact on the consolidated financial statements of Phoenix Group Holdings plc for the year ended 31 December 2019. We therefore consider this to be a minor breach of the Ethical Standard and we do not consider our independence to be impaired. We notified the Audit Committee of this breach in November 2019. The Audit Committee agreed with our conclusion that the breach is minor and that our independence is not impaired. The Audit Committee's discussion of this breach is set out on page 95. The evaluation of whether our independence was impaired included consideration of the safeguards to independence in connection with the services. We considered an appropriate safeguard is that the year-end tax balances were audited by a separate UK tax team to the tax team that provided the non-audit services.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
6 March 2020

Notes:
1 The maintenance and integrity of the Phoenix Group Holdings plc web site 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 financial statements since they were initially presented on the web site.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	2019 £m	2018 restated (note A1) £m
Gross premiums written		**4,038**	2,645
Less: premiums ceded to reinsurers	F3	**(556)**	(481)
Net premiums written		**3,482**	2,164
Fees and commissions	C1	**700**	385
Total revenue, net of reinsurance payable		**4,182**	2,549
Net investment income	C2	**24,876**	(9,457)
Other operating income		**106**	37
Gain on acquisition	H2	**–**	141
Net income		**29,164**	(6,730)
Policyholder claims		**(7,792)**	(5,295)
Less: reinsurance recoveries		**1,177**	866
Change in insurance contract liabilities		**(5,229)**	4,768
Change in reinsurers' share of insurance contract liabilities		**(320)**	(20)
Transfer from unallocated surplus	F2	**84**	88
Net policyholder claims and benefits incurred		**(12,080)**	407
Change in investment contract liabilities		**(14,080)**	7,832
Change in present value of future profits	G2	**70**	1
Amortisation of acquired in-force business	G2	**(382)**	(196)
Amortisation of other intangibles	G2	**(20)**	(18)
Administrative expenses	C3	**(1,549)**	(1,056)
Net (expense)/income under arrangements with reinsurers	F3.3	**(274)**	2
Net (income)/expense attributable to unitholders		**(336)**	159
Total operating expenses		**(28,651)**	7,131
Profit before finance costs and tax		**513**	401
Finance costs	C5	**(162)**	(142)
Profit for the year before tax		**351**	259
Tax (charge)/credit attributable to policyholders' returns	C6	**(365)**	211
(Loss)/profit before the tax attributable to owners		**(14)**	470
Tax (charge)/credit	C6	**(235)**	151
Add: tax attributable to policyholders' returns	C6	**365**	(211)
Tax credit/(charge) attributable to owners	C6	**130**	(60)
Profit for the year attributable to owners		**116**	410
Attributable to:			
Owners of the parent		**85**	379
Non-controlling interests	D4	**31**	31
		116	410
Earnings per ordinary share			
Basic (pence per share)	B3.1	**8.7p**	66.8p
Diluted (pence per share)	B3.2	**8.6p**	66.7p

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Profit for the year		**116**	410
Other comprehensive (expense)/income:			
Items that are or may be reclassified to profit or loss:			
Cash flow hedges:			
Fair value (losses)/gains arising during the year		**(40)**	31
Reclassification adjustments for amounts recognised in profit or loss		**41**	(28)
Exchange differences on translating foreign operations		**(29)**	2
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit asset/liability	G1	**(24)**	(54)
Tax charge relating to other comprehensive income items	C6	**(57)**	(10)
Total other comprehensive expense for the year		**(109)**	(59)
Total comprehensive income for the year		**7**	351
Attributable to:			
Owners of the parent		**(24)**	320
Non-controlling interests	D4	**31**	31
		7	351

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 £m	2018 restated (note A1) £m
ASSETS			
Pension scheme asset	G1	**314**	255
Intangible assets			
Goodwill		**57**	57
Acquired in-force business		**3,651**	4,033
Other intangibles		**271**	221
	G2	**3,979**	4,311
Property, plant and equipment	G3	**109**	48
Investment property	G4	**5,943**	6,520
Financial assets			
Loans and deposits		**516**	423
Derivatives	E3	**4,454**	3,798
Equities		**58,979**	52,716
Investment in associate		**513**	496
Debt securities		**76,113**	71,365
Collective investment schemes		**69,415**	67,692
Reinsurers' share of investment contract liabilities		**8,881**	8,331
	E1	**218,871**	204,821
Insurance assets			
Reinsurers' share of insurance contract liabilities	F1	**7,324**	7,564
Reinsurance receivables		**50**	42
Insurance contract receivables		**54**	67
		7,428	7,673
Current tax	G8	**75**	145
Prepayments and accrued income		**259**	234
Other receivables	G5	**1,233**	1,047
Cash and cash equivalents	G6	**4,466**	4,926
Total assets		**242,677**	229,980

Statement of Consolidated Financial Position continued

	Notes	2019 £m	2018 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	D1	**72**	72
Share premium		**2**	3,077
Shares held by employee benefit trust	D2	**(7)**	(6)
Foreign currency translation reserve		**69**	98
Owner-occupied property revaluation reserve		**5**	5
Cash flow hedging reserve		**(7)**	(8)
Retained earnings		**4,651**	1,923
Total equity attributable to owners of the parent		**4,785**	5,161
Tier 1 Notes	D3	**494**	494
Non-controlling interests	D4	**314**	294
Total equity		**5,593**	5,949
Liabilities			
Pension scheme liability	G1	**1,712**	596
Insurance contract liabilities			
Liabilities under insurance contracts	F1	**95,643**	91,211
Unallocated surplus	F2	**1,367**	1,358
		97,010	92,569
Financial liabilities			
Investment contracts		**120,773**	114,463
Borrowings	E5	**2,119**	2,186
Deposits received from reinsurers		**4,213**	4,438
Derivatives	E3	**734**	1,093
Net asset value attributable to unitholders		**3,149**	2,659
Obligations for repayment of collateral received		**3,671**	2,645
	E1	**134,659**	127,484
Provisions	G7	**328**	377
Deferred tax	G8	**873**	843
Reinsurance payables		**101**	30
Payables related to direct insurance contracts	G9	**890**	902
Current tax	G8	**–**	20
Lease liabilities	G10	**84**	–
Accruals and deferred income	G11	**384**	337
Other payables	G12	**1,043**	873
Total liabilities		**237,084**	224,031
Total equity and liabilities		**242,677**	229,980

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital (note D1) £m	Share premium (note D1) £m	Shares held by the employee benefit trust (note D2) £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m	Tier 1 Notes (note D3) £m	Non-controlling interests (note D4) £m	Total equity £m
At 1 January 2019	72	3,077	(6)	98	5	(8)	1,923	5,161	494	294	5,949
Profit for the year	–	–	–	–	–	–	85	85	–	31	116
Other comprehensive (expense)/income for the year	–	–	–	(29)	–	1	(81)	(109)	–	–	(109)
Total comprehensive income for the year	–	–	–	(29)	–	1	4	(24)	–	31	7
Issue of ordinary share capital, net of associated commissions and expenses (note D1)	–	2	–	–	–	–	–	2	–	–	2
Dividends paid on ordinary shares	–	–	–	–	–	–	(338)	(338)	–	–	(338)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	11	11	–	–	11
Shares distributed by the employee benefit trust	–	–	3	–	–	–	(3)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(4)	–	–	–	–	(4)	–	–	(4)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(11)	(11)
Transfer of reserve (note A1)	–	(3,077)	–	–	–	–	3,077	–	–	–	–
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(23)	(23)	–	–	(23)
At 31 December 2019	72	2	(7)	69	5	(7)	4,651	4,785	494	314	5,593

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital (note D1) £m	Share premium (note D1) £m	Shares held by employee benefit trust (note D2) £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m	Tier 1 Notes (note D3) £m	Non-controlling interests (note D4) £m	Total equity £m
At 1 January 2018	39	1,413	(2)	96	5	(11)	1,615	3,155	–	–	3,155
Profit for the year	–	–	–	–	–	–	379	379	–	31	410
Other comprehensive income/(expense) for the year	–	–	–	2	–	3	(64)	(59)	–	–	(59)
Total comprehensive income for the year	–	–	–	2	–	3	315	320	–	31	351
Issue of ordinary share capital, net of associated commissions and expenses (note D1)	33	1,926	–	–	–	–	–	1,959	–	–	1,959
Dividends paid on ordinary shares	–	(262)	–	–	–	–	–	(262)	–	–	(262)
Credit to equity for equity-settled share based payments	–	–	–	–	–	–	9	9	–	–	9
Shares distributed by employee benefit trust	–	–	4	–	–	–	(4)	–	–	–	–
Shares acquired by employee benefit trust	–	–	(8)	–	–	–	–	(8)	–	–	(8)
Non-controlling interests recognised on acquisition	–	–	–	–	–	–	–	–	–	265	265
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(2)	(2)
Issue of Tier 1 Notes	–	–	–	–	–	–	–	–	494	–	494
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 31 December 2018	72	3,077	(6)	98	5	(8)	1,923	5,161	494	294	5,949

STATEMENT OF CONSOLIDATED CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated/(utilised) by operations	I2	**273**	(324)
Taxation paid		**(205)**	(29)
Net cash flows from operating activities		**68**	(353)
Cash flows from investing activities			
Acquisition of Standard Life Assurance subsidiaries, net of cash acquired		**–**	1,607
Net cash flows from investing activities		**–**	1,607
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		**2**	936
Ordinary share dividends paid	B4	**(338)**	(262)
Dividends paid to non-controlling interests	D4	**(11)**	(2)
Repayment of policyholder borrowings	E5.2	**(34)**	(69)
Repayment of shareholder borrowings	E5.2	**(100)**	(295)
Repayment of lease liabilities	G10	**(15)**	–
Proceeds from new shareholder borrowings, net of associated expenses	E5.2	**100**	733
Proceeds from issuance of Tier 1 Notes, net of associated expenses		**–**	494
Coupon paid on Tier 1 Notes		**(29)**	(14)
Interest paid on policyholder borrowings		**(4)**	(5)
Interest paid on shareholder borrowings		**(99)**	(89)
Net cash flows from financing activities		**(528)**	1,427
Net (decrease)/increase in cash and cash equivalents		**(460)**	2,681
Cash and cash equivalents at the beginning of the year		**4,926**	2,245
Cash and cash equivalents at the end of the year		**4,466**	4,926

Notes to the Consolidated Financial Statements

A. SIGNIFICANT ACCOUNTING POLICIES

A1. Basis of Preparation

The consolidated financial statements for the year ended 31 December 2019 set out on pages 147 to 243 comprise the financial statements of Phoenix Group Holdings plc ('the Company') and its subsidiaries (together referred to as 'the Group'), and were authorised by the Board of Directors for issue on 6 March 2020.

In 2018, following 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 the Company in consideration for the allotment to Old PGH shareholders of one ordinary share in the Company 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 the Company being inserted above Old PGH in the Group legal entity organisational structure and constituted a group reconstruction. It was 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 were presented as a continuation of the Old PGH business and the Group is presented as if the Company had always been the ultimate parent company. The equity structure as at 1 January 2018 was restated to reflect the difference between the par value of shares issued by the Company (£39 million) and the shares issued by Old PGH (£nil) prior to the share for share exchange, with a corresponding adjustment to share premium. In addition, the presentation within the consolidated statement of changes in equity of the impact of shares issued during 2018 by Old PGH up to the date of the share for share exchange reflected the par value of the shares issued by the Company.

At 31 December 2018, the share premium reserve continued to reflect the position of Old PGH. During 2019, Old PGH, in accordance with Cayman Islands Companies Law, made a distribution of its entire share premium reserve to Phoenix Group Holdings plc. This has been reflected as a transfer of share premium in the statement of consolidated changes in equity in the year.

No other adjustments have been reflected in equity, and as a consequence, the carrying values of the components of equity recognised in the consolidated financial statements are different to the corresponding balances in the financial statements of the Company.

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

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

Assets and liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by an International Financial Reporting Standard ('IFRS') or interpretation, as specifically disclosed in the accounting policies of the Group.

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs as adopted by the European Union ('EU').

Restatement of prior period information

Following the acquisition of the Standard Life Assurance businesses in 2018, the Group has revised the presentation of certain balances within the statement of consolidated financial position and consolidated income statement. These presentational changes have been made to ensure consistency of accounting treatment for all similar items across the Group's subsidiaries.

	2018 As previously reported £m	Adjustments £m	2018 restated £m
Consolidated income statement:			
Net investment income	(9,600)	143	(9,457)
Change in investment contract liabilities	7,975	(143)	7,832
Statement of consolidated financial position:			
Financial assets:			
Loans and deposits	3,612	(3,189)	423
Debt securities	67,932	3,433	71,365
Collective investment schemes	70,606	(2,914)	67,692
Reinsurers' share of investment contract liabilities	5,417	2,914	8,331
Prepayments and accrued income	478	(244)	234

Debt securities has been restated to include reclassified loans and deposits designated at fair value through profit and loss and an uplift to the value of certain assets for accrued interest previously classified within prepayments and accrued interest. These reclassifications have resulted in an increase to the fair value hierarchy totals for debt securities as follows: £195 million for level 1; £45 million for level 2; and £3,193 million for level 3 assets.

External Fund Link assets have been reclassified from collective investment schemes to reinsurers' share of investment contract liabilities also as a level 1 asset. This has had an associated impact within the consolidated income statement as shown above. Following on from this change, the previously reported reinsurers' share of investment contract liabilities balance of £5,381 million was reclassified from level 2 to level 1.

The reclassifications noted above are also reflected in notes C2 investment income, E1.1 fair value analysis, E2 fair value hierarchy, E6 financial risk analysis, H4 structured entities and I2 cash flows from operating activities.

None of the restatements of prior period information have impacted the total equity attributable to the owners of the parent.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, including collective investment schemes, where the Group exercises overall control. In accordance with the principles set out in IFRS 10 *Consolidated Financial Statements*, the Group controls an investee if and only if the Group has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including relevant activities, substantive and protective rights, voting rights and purpose and design of an investee. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Further details about the consolidation of subsidiaries, including collective investment schemes, are included in note H1.

A2. Accounting Policies

The principal accounting policies have been consistently applied in these consolidated financial statements. Where an accounting policy can be directly attributed to a specific note to the consolidated financial statements, the policy is presented within that note, with a view to enabling greater understanding of the results and financial position of the Group. All other significant accounting policies are disclosed below. The impacts of changes in accounting policies during the year are detailed in note A6.

A2.1 Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the period end;
- income, expenses and cash flows denominated in foreign currencies are translated at average exchange rates; and
- all resulting exchange differences are recognised through the statement of consolidated comprehensive income.

Foreign currency transactions are translated into the functional currency of the transacting Group entity using exchange rates prevailing at the date of translation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value through profit or loss are included in foreign exchange gains and losses. Translation differences on non-monetary items at fair value through profit or loss are reported as part of the fair value gain or loss.

A3. Critical Accounting Estimates and Judgements

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are the measurement of insurance and investment contract liabilities, determination of the fair value of financial assets and liabilities, valuation of pension scheme assets and liabilities, valuation of intangibles on initial recognition and measurement of provisions.

The application of critical accounting judgements that could have the most significant effect on the recognised amounts include recognition of pension surplus, the determination of operating profit, identification of intangible assets arising on acquisitions, the recognition of an investment as an associate and determination of control with regards to underlying entities. Details of all critical accounting estimates and judgements are included below.

A3.1 Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in the accounting policies in note F1 with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note F4. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as future expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends.

The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Details of sensitivities arising from significant non-economic assumptions are detailed on page 197 in note F4.

A3.2 Fair value of financial assets and liabilities

Financial assets and liabilities are measured at fair value and accounted for as set out in the accounting policies in note E1. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued using valuation techniques based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued using valuation techniques based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

A. SIGNIFICANT ACCOUNTING POLICIES continued

A3. Critical Accounting Estimates and Judgements continued

A3.2 Fair value of financial assets and liabilities continued

Further details of the estimates made are included in note E2. In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key assumptions used in the valuation of these financial instruments. The details of this sensitivity analysis are included in note E2.3.

A3.3 Pension scheme obligations

The valuation of pension scheme obligations is determined using actuarial valuations that depend upon a number of assumptions, including discount rate, inflation and longevity. External actuarial advice is taken with regard to setting the financial assumptions to be used in the valuation. As defined benefit pension schemes are long-term in nature, such assumptions can be subject to significant uncertainty.

Further detail of these estimates and the sensitivity of the defined benefit obligation to key assumptions is provided in note G1.

A3.4 Recognition of pension scheme surplus

A pension scheme surplus can only be recognised to the extent that the sponsoring employer can utilise the asset through a refund of surplus or a reduction in contributions. A refund is available to the Group where it has an unconditional right to a refund on a gradual settlement of liabilities over time until all members have left the scheme. A review of the Trust Deeds of the Group's pension schemes that recognise a surplus has highlighted that the Scheme Trustees are not considered to have the unilateral power to trigger a wind-up of the Scheme and the Trustees' consent is not needed for the sponsoring company to trigger a wind-up. Where the last beneficiary died or left the scheme, the sponsoring company could close the Scheme and force the Trustees to trigger a wind-up by withholding its consent to continue the Scheme on a closed basis. This view is supported by external legal opinion and is considered to support the recognition of a surplus. Management has determined that the scheme administrator would be subject to a 35% tax charge on a refund and therefore any surplus is reduced by this amount. Further details of the Group's pension schemes are provided in note G1.

A3.5 Operating profit

Operating profit is the Group's non-GAAP measure of performance and gives stakeholders a better understanding of the underlying performance of the Group. The Group is required to make judgements as to the appropriate longer-term rates of investment return for the determination of operating profit, as detailed in note B2, and as to what constitutes an operating or non-operating item in accordance with the accounting policy detailed in note B1.

A3.6 Acquisition of the Standard Life Assurance businesses

The identification and valuation of identifiable intangible assets, such as acquired in-force business or brand intangibles, arising from the Group's acquisition of the Standard Life Assurance businesses in 2018, required the Group to make a number of judgements and estimates. Further details are included in notes G2 'Intangible assets' and H2 'Acquisitions'.

A3.7 Control and consolidation

The Group has invested in a number of collective investment schemes and other types of investment where judgement is applied in determining whether the Group controls the activities of these entities. These entities are typically structured in such a way that owning the majority of the voting rights is not the conclusive factor in the determination of control in line with the requirements of IFRS 10 *Consolidated Financial Statements.* The control assessment therefore involves a number of further considerations such as whether the Group has a unilateral power of veto in general meetings and whether the existence of other agreements restrict the Group from being able to influence the activities. Further details of these judgements are given in note H1.

A3.8 Provisions

The Group holds a number of provisions and the amount of each provision is determined based on the Group's estimation of the outflow of resources required to settle each obligation as at 31 December 2019. The recognition and measurement of these provisions involves a high degree of judgement and estimation uncertainty. Further details of these provisions and the key uncertainties identified are included in note G7.

A4. Adoption of New Accounting Pronouncements in 2019

In preparing the consolidated financial statements, the Group has adopted the following standards, interpretations and amendments effective from 1 January 2019:

- **IFRS 16 *Leases.*** The new standard replaces IAS 17 *Leases* and removes the classification of leases as operating or finance leases for the lessee, thereby treating all leases as finance leases. This has resulted in the recognition of the Group's previously classified operating leases on balance sheet as right of use assets (see note G3) and lease liabilities (see note G10). The Group's finance leases in respect of ground rents payable in connection with investment properties were previously accounted for in accordance with IAS 17 and included within investment properties and other payables. Amounts included in other payables have been reclassified to lease liabilities. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information for 2018 has not been restated and continues to be reported under IAS 17 and related interpretations. Further details of the impact of applying IFRS 16 as at 1 January 2019 are included in note A6.
- **IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*.** The Interpretation explains how to recognise and measure deferred and current tax assets and liabilities where there is uncertainty over a tax treatment. There are no new disclosure requirements; however, the Group has reviewed whether further information should be provided about judgements and estimates made in preparing the consolidated financial statements. No specific issues have been identified that require disclosure in the period.
- **Amendments to IAS 19 *Employee Benefits* – Plan Amendment, Curtailment or Settlement.** The amendments address the accounting when a defined benefit plan amendment, curtailment or settlement occurs during a reporting period and apply prospectively from 1 January. The Group is required to update the assumptions about its obligation and fair value of its plan assets to calculate costs related to these changes. The proposed amendments to IAS 19 specify that the Group is required to use the updated information to determine current service cost and net interest for the period followed by these changes. There have been no plan amendments, curtailments or settlements within any Group pension scheme during the year and retrospective application is not required.
- **Annual Improvements Cycle 2015-2017: Amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs* and IFRS 3 *Business combinations*/IFRS 11 *Joint Arrangements.*** These amendments do not currently have any impact on the Group.

A5. New Accounting Pronouncements not yet Effective

The IASB has issued the following new or amended standards and interpretations which apply from the dates shown. The Group has decided not to early adopt any of these standards, amendments or interpretations where this is permitted.

- **IFRS 9 *Financial Instruments* (2018 – recommended implementation date extended to 2022)**. Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 *Financial Instruments*. The expected credit loss model will require the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

  The Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 until 1 January 2021 (recommended deferral period extended by IASB to 2022) as a result of meeting the exemption criteria as at 31 December 2015. As at this date the Group's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%. Following the acquisition of the Standard Life Assurance businesses on 31 August 2018, this assessment was re-performed and the Group's activities were still considered to be predominantly connected with insurance.

  IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 *Insurance Contracts*) effective from 1 January 2021 (IASB recommended extending the implementation date to 2022). During the year, the Group commenced its implementation activities in respect of IFRS 9 and these will continue through 2020.The Group expects to continue to value the majority of its financial assets at fair value through profit or loss on initial recognition, either as a result of these financial assets being managed on a fair value basis or as a result of using the fair value option to irrevocably designate the assets at fair value through profit or loss.

  IFRS 9 also amends the general hedge accounting requirements for the Group's hedging relationships that are currently accounted for under IAS 39. It is expected that the existing hedging relationships will continue to be accounted for as cash flow hedges under IFRS 9 and hedge effectiveness testing processes and documentation will be updated to reflect the new more principles based requirements. A number of additional disclosures will be required by IFRS 7 *Financial Instruments: Disclosures* as a result of implementing IFRS 9. Additional disclosures have been made in note E1.2 to the consolidated financial statements to provide information to allow comparison with entities who have already adopted IFRS 9.

- **Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation (2019 – recommended implementation date extended to 2022 for those companies applying the IFRS 4 deferral option).** The proposed amendments would allow for a narrow exception to IFRS 9 that would permit particular financial instruments with prepayment features with negative compensation to be eligible for measurement at amortised cost or at fair value through other comprehensive income. It is not currently expected that these amendments will have an impact on the Group and its consolidated financial statements.

- **Amendments to IAS 28 *Investments in Associates and Joint Ventures*: Long-term Interests in Associates and Joint Ventures (2019 – recommended implementation date extended to 2022 for those companies applying the IFRS 4 deferral option).** The amendments to IAS 28 clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments do not currently have any impact on the Group.

- **Amendments to References to the Conceptual Framework in IFRS Standards (2020).**

- **Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (2020).** The amendments clarify the definition of material and how it should be applied and ensures that the definition of material is consistent across all IFRS Standards.

- **Amendments to IFRS 3 *Business Combinations* (2020).** The amendments have revised the definition of a business and aim to assist companies to determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. These amendments do not currently have any impact on the Group.

- **Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (2020).** The amendments have arisen following the phasing out of interest-rate benchmarks such as interbank offered rates ('IBOR'). Specific hedge accounting requirements have been modified to provide relief from potential effects of the uncertainty caused by IBOR reform. In addition, these amendments require entities to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. There is not expected to be an impact for the Group from these amendments but a review will be undertaken in 2020 to confirm this.

- **IFRS 17 *Insurance contracts* (2021 – IASB recommended extension of implementation date to 2022).** Once effective IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Group measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users. The new standard uses three measurement approaches and the principles underlying two of these measurement approaches will significantly change the way the Group measures its insurance contracts and investment contracts with Discretionary Participation Features ('DPF'). These changes will impact profit emergence patterns and add complexity to valuation processes, data requirements and assumption setting. The Group's IFRS 17 project continued through 2019 with an increasing focus on implementation activities alongside ongoing financial and operational impact assessments and methodology development.

A. SIGNIFICANT ACCOUNTING POLICIES continued

A5. New Accounting Pronouncements not yet Effective continued

In June 2019, the IASB published an exposure draft of amendments to IFRS 17 in response to feedback received. Whilst the IASB has confirmed many of the changes that will be made to the standard, there remains significant uncertainty in respect of certain key areas of the standard. In relation to the implementation date, the IASB staff have recently proposed to the IASB board that the implementation date is extended to annual periods beginning on or after 1 January 2023. The IASB board is expected to approve this change at their March 2020 meeting. Development of the Group's methodologies and accounting policies is progressing; however, these will not be finalised until after the amended standard is published in mid-2020. All activities will continue throughout 2020.

- **Classification of Liabilities as Current and Non-current (Amendments to IAS 1 *Presentation of Financial Statements*) (2022).** The amendments clarify rather than change existing requirements and aim to assist entities in determining whether debt and other liabilities with an uncertain settlement date should be classed as current or non-current. It is currently not expected that there will be any reclassifications as a result of this clarification.
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective date deferred).** The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. This amendment is currently not applicable to the Group.

All of the above have been endorsed by the EU with the exception of the following:

- IFRS 17 *Insurance contracts*;
- Amendments to IFRS 3 *Business Combinations*; and
- Classification of Liabilities as Current and Non-current (Amendments to IAS 1 *Presentation of Financial Statements*).

On 31 January 2020, the UK left the EU and consequently EFRAG will no longer endorse IFRSs for use in the UK. Legislation is already in place that will onshore and freeze EU-adopted IFRSs from the date of the exit, and the European Commission's powers to endorse and adopt IFRSs will be delegated by the Secretary of State to a UK endorsement board which will be set up by the UK Financial Reporting Council. IFRSs in the UK will be known as 'UK-adopted International Accounting Standards'.

A6. Change in Accounting Policy – IFRS 16 *Leases*

IFRS 16 introduced a single, on-balance sheet accounting model for lessees effective from 1 January 2019. IFRS 16 supersedes IAS17 '*Leases*', IFRIC 4 '*Determining whether an Arrangement contains a Lease*', SIC-15 '*Operating Leases – Incentives*' and SIC-27 '*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*'. As a result, the Group as a lessee has recognised right-of-use assets representing its rights to use underlying assets and lease liabilities representing its obligation to make lease payments in respect of both its operating and finance leases. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information for 2018 has not been restated and continues to be reported under IAS 17 and related interpretations.

As a lessee, the Group previously classified certain property leases as operating leases where a significant element of the risks and rewards of title to the asset was retained by the lessor. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities in respect of these property leases in the statement of consolidated financial position. The Group's finance leases are in respect of ground rents payable in connection with a number of investment properties that the Group owns. These were previously accounted for in accordance with IAS 17 and included within investment properties and other payables in the statement of consolidated financial position.

At 1 January 2019, the carrying value of the right of use assets and lease liabilities for the Group's finance leases is measured in accordance with IAS 17, as permitted by IFRS 16, and the new standard will be applied to these leases from 1 January 2019.The details of the changes in accounting policies are discussed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 '*Determining Whether an Arrangement contains a Lease*'. The Group now assesses whether a contract is or contains a lease based on IFRS16 which states that 'a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration'.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group excludes non-lease components such as service charges and accounts for these on a straight-line basis over the lease term.

Accounting policy

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The property, plant and equipment right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairments, and adjusted for certain remeasurements of the lease liability. These right-of-use assets are depreciated over the remaining lease term which is between 1 and 11 years. The ground rent right-of-use asset is classified as investment property and measured at fair value. Gains and losses arising from the change in fair value are recognised in the consolidated income statement.

Lease liabilities are presented as a separate line item and right-of-use assets are presented within 'property, plant and equipment' and 'investment property' in the statement of consolidated financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate as the interest rate implicit in the lease cannot be readily determined. For leases classified as finance leases, the incremental borrowing rate of investment funds holding the associated investment properties is used as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from, for example, rent reviews or from changes in the assessment of whether a termination option is reasonably certain not to be exercised. The Group has applied judgement to determine the lease term for some lease contracts with break clauses.

Transition

Previously, the Group classified certain property leases as operating leases under IAS 17. Payments made under operating leases, net of any incentives received from the lessor, were recognised as an expense in the consolidated income statement on a straight-line basis over the period of the lease.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used a further practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17 to exclude initial direct costs from measuring the right-of-use asset at the date of initial application.

At transition the carrying value of the right of use assets and lease liabilities for the Group's finance leases is measured in accordance with IAS 17 and the requirements of IFRS 16 are applied to these leases from 1 January 2019.

Impact on consolidated financial statements

The impact to the statement of consolidated financial position on transition to IFRS 16 is outlined below:

	1 January 2019 £m
Right-of-use assets	77
Lease liabilities	(158)
Other payables[1]	80
Derecognition of accrual for rent free period	1
Total	–

1 At 1 January 2019 leased assets of £80 million included within investment properties were classified as right-of-use assets.

The Group's weighted average incremental borrowing rate applied to operating lease liabilities in the statement of consolidated financial position at the date of initial application was 2.84%. For leases classified as finance leases, the weighted average incremental borrowing rate of investment funds holding the associated investment properties applied at the date of initial application was 2.91%.

The table below reconciles closing operating lease commitments at 31 December 2018 to opening lease liabilities as classified under IFRS16 at 1 January 2019.

	1 January 2019 £m
Operating lease commitment as at 31 December 2018	91
Finance lease liability as at 31 December 2018	80
Restatement of opening operating lease commitment[1]	(8)
Restated lease liabilities as at 31 December 2018	163
Effect of discounting using the incremental borrowing rate as at 1 January 2019	(11)
Less: Low value leases recognised on a straight-line basis as expense	(1)
Add: Adjustments as a result of different treatment of extension and termination options	7
Lease liabilities as at 1 January 2019	158

1 The opening restatement relates to service agreements incorrectly categorised as operating lease commitments at 31 December 2018.

B. EARNINGS PERFORMANCE

B1 Segmental Analysis

The Group defines and presents operating segments in accordance with IFRS 8 '*Operating Segments*' which requires such segments to be based on the information which is provided to the Board, and therefore segmental information in this note is presented on a different basis from profit or loss in the consolidated financial statements.

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

Following the acquisition of the Standard Life Assurance businesses in 2018, the Group reassessed its operating segments to reflect the way the business was subsequently being managed. The Group now has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services, as set out in note B1.1.

For management purposes, the Group is organised into business units based on their products and services. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. No such aggregation has been required in the current year.

The UK Heritage segment contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies, and will provide annuities to existing policyholders with vesting products. Bulk Purchase Annuity contracts are included in this segment.

The UK Open segment includes new and in-force life insurance and investment policies in respect of products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and Self-Invested Personal Pensions ('SIPPs') distributed through the Group's Strategic Partnership with Standard Life Aberdeen plc ('SLA plc'), and also products sold under the SunLife brand.

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

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

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

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

Segmental measure of performance: Operating Profit

The Company uses a non-GAAP measure of performance, being operating profit, to evaluate segment performance. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movement in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer-term asset allocation backing the business).

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

Operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities (see notes B2.2 and B2.3);
- 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.

Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of the operating profit metric provides useful information for assessing the performance of the Group's operating segments on an ongoing basis. The IFRS results are significantly impacted by the amortisation of intangible balances arising on acquisition, the one-off costs of integration activities and the costs of servicing debt used to finance acquisition activity, which are not indicative of the underlying operational performance of the Group's segments.

Furthermore, the hedging strategy of the Group is calibrated to protect the Solvency II capital position and cash generation capability of the operating companies, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the operating profit metric.

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

B1.1 Segmental result

	Notes	2019 £m	2018 £m
Operating profit			
UK Heritage		**694**	640
UK Open		**73**	41
Europe		**52**	22
Management Services		**26**	25
Unallocated Group		**(35)**	(20)
Total segmental operating profit		**810**	708
Investment return variances and economic assumption changes on long-term business	B2.2	**(177)**	283
Variance on owners' funds	B2.3	**13**	(193)
Amortisation of acquired in-force business		**(375)**	(189)
Amortisation of other intangibles	G2	**(20)**	(18)
Other non-operating items		**(169)**	(38)
Finance costs on borrowing attributable to owners		**(127)**	(114)
(Loss)/profit before the tax attributable to owners of the parent		**(45)**	439
Profit before tax attributable to non-controlling interests		**31**	31
(Loss)/profit before the tax attributable to owners		**(14)**	470

Other non-operating items in respect of 2019 include:

- an £80 million benefit arising from updated expense assumptions for insurance contracts reflecting reduced future servicing costs as a result of transition activity. Such benefits on the Group's investment contract business will typically be recognised as incurred. This benefit has been more than offset by staff and external costs incurred or provided for in the period with regard to transition activity and the transformation of the Group's operating model and extended relationship with Tata Consultancy Services, totalling £190 million, of which £175 million relates to external costs;
- £5 million of costs associated with preparations to ready the business for Brexit;
- £41 million of other corporate project costs, including the Group's Internal Model harmonisation project and acquisition of ReAssure Group; and
- net other one-off items totalling a cost of £13 million.

Other non-operating items in respect of 2018 include:

- a provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products;
- costs of £43 million associated with the acquisition of the Standard Life Assurance businesses, and £7 million incurred under the on-going transition programme;
- costs of £59 million associated with the equalisation of accrued Guaranteed Minimum Pension ('GMP') benefits within the Group's pension schemes (see note G1 for further details);
- a net benefit of £45 million reflecting anticipated costs savings associated with process improvements and continued investment in the digitalisation of the customer journey;
- 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 (see note H2 for further details); and
- net other one-off items totalling a cost of £47 million, including other corporate project costs of £42 million.

Further details of the investment return variances and economic assumption changes on long-term business, and the variance on owners funds, are included in note B2.

B. EARNINGS PERFORMANCE continued
B1 Segmental Analysis continued
B1.2 Segmental revenue

2019	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	**2,525**	**229**	**1,284**	**–**	**–**	**4,038**
Less: premiums ceded to reinsurers	**(528)**	**–**	**(28)**	**–**	**–**	**(556)**
Net premiums written	**1,997**	**229**	**1,256**	**–**	**–**	**3,482**
Fees and commissions	**360**	**278**	**62**	**–**	**–**	**700**
Income from other segments	**–**	**–**	**–**	**894**	**(894)**	**–**
Total segmental revenue	**2,357**	**507**	**1,318**	**894**	**(894)**	**4,182**

2018	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	1,959	200	486	–	–	2,645
Less: premiums ceded to reinsurers	(478)	(1)	(2)	–	–	(481)
Net premiums written	1,481	199	484	–	–	2,164
Fees and commissions	272	91	22	–	–	385
Income from other segments	–	–	–	505	(505)	–
Total segmental revenue	1,753	290	506	505	(505)	2,549

Of the revenue from external customers presented in the table above, £3,131 million (2018: £2,199 million) is attributable to customers in the United Kingdom ('UK') and £1,051 million (2018: £350 million) to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) of £6,005 million (2018: £6,479 million) located in the UK and £375 million (2018: £367 million) located in the rest of the world.

B2. Investment Return Variances and Economic Assumption Changes

The long-term nature of much of the Group's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. The accounting policy adopted in the calculation of operating profit is detailed in note B1. The methodology for the determination of the expected investment return is explained below together with an analysis of investment return variances and economic assumption changes recognised outside of operating profit.

B2.1 Calculation of the long-term investment return

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

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15-year duration plus 10bps at the start of the year. A risk premium of 350bps is added to the risk-free yield for equities (2018: 350bps), 250bps for properties (2018: 250bps), 120bps for other fixed interest assets (2018: 150bps) and 50bps for gilts (2018: 50bps).

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

	2019 %	2018 %
Equities	**5.2**	5.2
Properties	**4.2**	4.2
Gilts	**2.2**	2.2
Other fixed interest	**2.9**	3.2

B2.2 Life assurance business

Operating profit for life assurance business is based on expected investment returns on financial investments backing owners' and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, for example mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profit funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business, the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

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

	2019 £m	2018 £m
Investment return variances and economic assumption changes on long-term business	**(177)**	283

The net adverse investment return variances and economic assumption changes on long-term business of £177 million (2018: £283 million positive) primarily arise as a result of losses on hedging positions held by the life funds reflecting improving equity markets in the year. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. These adverse impacts have been partly offset by the positive impacts of strategic asset allocation activities, including investment in higher yielding illiquid assets, and lower fixed interest yields experienced during the period.

B2.3 Owners' funds

For non-long-term business including owners' funds, the total investment income, including fair value gains, is analysed between a calculated longer-term return and short-term fluctuations.

The variances excluded from operating profit in relation to owners' funds are as follows:

	2019 £m	2018 £m
Variances on owners' funds of subsidiary undertakings	**13**	(193)

The positive variance on owners' funds of £13 million (2018: £193 million negative) is principally driven by gains on foreign currency swaps held by the holding companies to hedge exposure of future life company profits to movements in exchange rates. The prior year result included 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. Losses of £143 million were incurred on these instruments, together with option premiums of £22 million.

B. EARNINGS PERFORMANCE continued

B3. Earnings Per Share

The Group calculates its basic earnings per share based on the present shares in issue using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated based on the potential future shares in issue assuming the conversion of all potentially dilutive ordinary shares. The weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive share awards granted to employees and warrants.

The basic and diluted earnings per share calculations are also presented based on the Group's operating profit as this non-GAAP performance measure is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items.

B3.1 Basic earnings per share

The result attributable to ordinary equity holders of the parent for the purposes of determining earnings per share has been calculated as set out below.

	2019 £m	2018 £m
Profit for the period attributable to owners	**116**	410
Share of result attributable to non-controlling interests	**(31)**	(31)
Coupon payable in respect of Tier 1 Notes, net of tax relief	**(23)**	(12)
Profit attributable to ordinary equity holders of the parent	**62**	367

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

	2019 Number million	2018 Number million
Issued ordinary shares at beginning of the period	**721**	437
Effect of ordinary shares issued	**–**	115
Own shares held by the employee benefit trust	**(1)**	(1)
Weighted average number of ordinary shares	**720**	551

Basic earnings per share is as follows:

	2019 pence	2018 pence
Basic earnings per share	**8.7**	66.8

B3.2 Diluted earnings per share

The result attributable to ordinary equity holders of the parent used in the calculation of diluted earnings per share is the same as that used in the basic earnings per share calculation in B3.1 above. The diluted weighted average number of ordinary shares outstanding during the period is 722 million (2018: 551 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave share-based schemes increased the weighted average number of shares on a diluted basis by 1,474,170 shares for the year ended 31 December 2019 (2018: 375,020 shares).

Diluted earnings per share is as follows:

	2019 pence	2018 pence
Diluted earnings per share	**8.6**	66.7

B3.3 Operating earnings per share

The operating result attributable to ordinary equity holders of the parent for the purposes of computing earnings per share has been calculated as set out below.

	Group operating profit 2019 £m	Non-operating items 2019 £m	Total 2019 £m	Group operating profit 2018 £m	Non-operating items 2018 £m	Total 2018 £m
Profit/(loss) before the tax attributable to owners	810	(824)	(14)	708	(238)	470
Tax credit attributable to owners	(163)	293	130	(129)	69	(60)
Profit for the period attributable to owners	647	(531)	116	579	(169)	410
Share of result attributable to non-controlling interests	–	(31)	(31)	–	(31)	(31)
Coupon payable in respect of Tier 1 Notes, net of tax relief	–	(23)	(23)	–	(12)	(12)
Profit for the period attributable to ordinary equity holders of the parent	647	(585)	62	579	(212)	367

The basic and diluted weighted average number of ordinary shares outstanding during the year are the same as those included in B3.1 and B3.2 above. Basic operating earnings per share and diluted operating earnings per share are as follows:

	2019 pence	2018 pence
Basic operating earnings per share	89.8	105.0
Diluted operating earnings per share	89.6	104.9

B4. Dividends

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

Prior to the creation of the UK-registered holding company (see note A1), dividends were charged within equity against the share premium account, as permitted by Cayman Islands Companies Law. From the date of the scheme of arrangement, dividends are charged to retained earnings in accordance with the UK Companies Act 2006.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period. Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

	2019 £m	2018 £m
Dividends declared and paid in the year	338	262

On 4 March 2019, the Board recommended a final dividend of 23.4p per share in respect of the year ended 31 December 2018. The dividend was approved at the Group's Annual General Meeting, which was held on 2 May 2019. The dividend amounted to £169 million and was paid on 7 May 2019.

On 6 August 2019, the Board declared an interim dividend of 23.4p per share for the half year ended 30 June 2019. The dividend amounted to £169 million and was paid on 30 September 2019.

C. OTHER CONSOLIDATED INCOME STATEMENT NOTES

C1. Fees and Commissions

Fees related to the provision of investment management services and administration services are recognised as services are provided. Front end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the life of the contract.

The table below details the 'Disaggregation of Revenue' disclosures required by IFRS15 *Revenue from contracts with customers*.

2019	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	**354**	**268**	**70**	**692**
Initial fees deferred during the year	**–**	**–**	**(8)**	**(8)**
Revenue from investment contracts without DPF	**354**	**268**	**62**	**684**
Other revenue from contracts with customers	**6**	**10**	**–**	**16**
Fees and commissions	**360**	**278**	**62**	**700**

2018	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	271	84	25	380
Initial fees deferred during the year	–	–	(3)	(3)
Revenue from investment contracts without DPF	271	84	22	377
Other revenue from contracts with customers	1	7	–	8
Fees and commissions	272	91	22	385

Remaining performance obligations

The practical expedient under IFRS 15 has been applied and remaining performance obligations are not disclosed as the Group has the right to consideration from customers in amounts that correspond with the performance completed to date. Specifically management charges become due over time in proportion to the Group's provision of investment management services.

Significant judgements in determining costs to obtain or fulfil investment contracts

No significant judgements are required in determining the costs incurred to obtain or fulfil contracts with customers, and no amortisation is required, as income directly matches costs with management charges being applied on an ongoing (or pro-rata) basis.

In the period no amortisation or impairment losses were recognised in the statement of comprehensive income.

C2. Net Investment Income

Net investment income comprises interest, dividends, rents receivable, net interest income/(expense) on the net defined benefit asset/(liability), fair value gains and losses on financial assets (except for reinsurers' share of investment contract liabilities without DPF, see note E1), financial liabilities and investment property at fair value and impairment losses on loans and receivables.

Interest income is recognised in the consolidated income statement as it accrues using the effective interest method.

Dividend income is recognised in the consolidated income statement on the date the right to receive payment is established, which in the case of listed securities is the ex-dividend date.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Fair value gains and losses on financial assets and financial liabilities designated at fair value through profit or loss are recognised in the consolidated income statement. Fair value gains and losses includes both realised and unrealised gains and losses.

	2019 £m	2018 restated[1] £m
Investment income		
Interest income on loans and deposits at amortised cost	**6**	10
Interest income on financial assets designated at FVTPL on initial recognition	**2,113**	1,260
Dividend income	**3,712**	1,936
Rental income	**298**	108
Net interest expense on Group defined benefit pension scheme (liability)/asset	**(29)**	(6)
	6,100	3,308
Fair value gains/ (losses)		
Financial assets and financial liabilities at FVTPL:		
Designated upon initial recognition	**17,574**	(12,873)
Held for trading – derivatives	**1,257**	126
Investment property	**(55)**	(18)
	18,776	(12,765)
Net investment income	**24,876**	(9,457)

1 See note A1 for details of restatements.

C3. Administrative Expenses

Administrative expenses

Administrative expenses are recognised in the consolidated income statement as incurred.

Deferred acquisition costs

For insurance and investment contracts with DPF, acquisition costs which include both incremental acquisition costs and other direct costs of acquiring and processing new business, are deferred.

For investment contracts without DPF, incremental costs directly attributable to securing rights to receive fees for asset management services sold with unit linked investment contracts are deferred.

Trail or renewal commission on investment contracts without DPF where the Group does not have an unconditional legal right to avoid payment is deferred at inception of the contract and an offsetting liability for contingent commission is established.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

	2019 £m	2018 £m
Employee costs	**334**	188
Outsourcer expenses	**141**	202
Movement in provision for transition and transformation programme (see note G7)	**159**	–
Professional fees	**135**	97
Commission expenses	**135**	63
Office and IT costs	**116**	74
Investment management expenses and transaction costs	**415**	263
Direct costs of life companies	**4**	2
Direct costs of collective investment schemes	**18**	14
Depreciation	**18**	2
Pension service costs	**–**	57
Pension administrative expenses	**4**	6
Advertising and sponsorship	**64**	59
Stamp duty payable on acquisition of Standard Life Assurance businesses	**–**	15
Other	**36**	28
	1,579	1,070
Acquisition costs deferred during the year	**(33)**	(15)
Amortisation of deferred acquisition costs	**3**	1
Total administrative expenses	**1,549**	1,056

Employee costs comprise:

	2019 £m	2018 £m
Wages and salaries	**304**	170
Social security contributions	**30**	18
	334	188

	2019 Number	2018 Number
Average number of persons employed	**4,403**	2,034

C4. Auditor's Remuneration

During the year the Group obtained the following services from its auditor at costs as detailed in the table below.

	2019 £m	2018 £m
Audit of the consolidated financial statements	**0.9**	2.0
Audit of the Company's subsidiaries	**5.1**	5.2
	6.0	7.2
Audit-related assurance services	**1.0**	0.7
Reporting accountant assurance services	**0.4**	0.2
Total fee for assurance services	**7.4**	8.1
Corporate finance services	**3.3**	3.7
Tax services fees	**–**	0.1
Other non-audit services	**–**	0.3
Total fees for other services	**3.3**	4.1
Total auditor's remuneration	**10.7**	12.2

No services were provided by the Company's auditors to the Group's pension schemes in either 2019 or 2018.

Audit of the consolidated financial statements includes amounts in respect of reporting to the auditor of SLA plc given their status as a significant investor in both 2019 and 2018. The 2018 balance also includes amounts in respect of the audit of the acquisition balance sheet of the acquired Standard Life Assurance businesses.

Audit related assurance services includes fees payable for services where the reporting is required by law or regulation to be provided by the auditor, such as reporting on regulatory returns. It also includes fees payable in respect of reviews of interim financial information and services where the work is integrated with the audit itself.

Reporting accountant services relate to assurance reporting on historical information included within investment circulars. In 2019, this includes public reporting associated with the acquisition of ReAssure Group. In 2018, this included public reporting associated with the acquisition of the Standard Life Assurance businesses and issuance of the Group's Tier 1 Notes.

C. OTHER CONSOLIDATED INCOME STATEMENT NOTES continued

C4. Auditor's Remuneration continued

Corporate finance services fees were £3.3 million (2018: £3.7 million). These fees principally relate to services provided in connection with the acquisition of ReAssure. £1.6 million of the fees related to actuarial and finance due diligence procedures conducted in relation to the acquisition where synergies were anticipated to arise with subsequent audit work. The remaining balance of £1.7 million relates to the provision of assurance services to the Board and the sponsoring banks in support of disclosures made in the public transaction documents. The 2018 fees principally related to services provided in connection with the acquisition of the Standard Life Assurance businesses and the Premium Listing of the Company undertaken as part of the Group's on-shoring activities. £1.6 million of the fees related to the engagement of the external auditors to perform actuarial and finance due diligence procedures where synergies were anticipated to arise with subsequent audit work. The remaining balance of £2.0 million related to the provision of assurance to the Board and the sponsoring banks in support of disclosures made in the public transaction documentation relating to the Standard Life Assurance acquisition and the Premium Listing.

No tax services were provided by the Company's auditors in 2019 (2018: £0.1 million). The 2018 fees principally related to services provided to Standard Life Assurance for which the Group's external auditor was engaged prior to the completion of the acquisition (and their appointment as auditors of those entities), and were terminated as permitted within a period of three months following completion of the acquisition. See page 95 for details of tax services provided by the Group's external auditor to Aberdeen Standard Investments where the benefit of those services arose in funds controlled by the Group.

No other non-audit services were provided by the Company's auditors in 2019 (2018: £0.3 million). The 2018 fees related to services provided to Standard Life Assurance where the engagement occurred prior to completion of the acquisition and which were terminated within the three-month grace period.

Further information on auditor's remuneration and the assessment of the independence of the external auditor is set out in the Audit Committee report on pages 92 to 96.

C5. Finance Costs

Interest payable is recognised in the consolidated income statement as it accrues and is calculated using the effective interest method.

	2019 £m	2018 restated £m
Interest expense		
On financial liabilities at amortised cost	**156**	140
On financial liabilities at FVTPL	**3**	2
On leases	**3**	–
	162	142
Attributable to:		
• policyholders	**12**	12
• owners	**150**	130
	162	142

C6. Tax Charge

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the statement of consolidated comprehensive income or the statement of consolidated changes in equity, in which case it is recognised in these statements.

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

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year.

C6.1 Current year tax charge/(credit)

	2019 £m	2018 £m
Current tax:		
UK corporation tax	**210**	83
Overseas tax	**62**	20
	272	103
Adjustment in respect of prior years	**(11)**	(54)
Total current tax charge	**261**	49
Deferred tax:		
Origination and reversal of temporary differences	**52**	(195)
Change in the rate of corporation tax	**(50)**	(4)
Write-up of deferred tax assets	**(28)**	(1)
Total deferred tax credit	**(26)**	(200)
Total tax charge/(credit)	**235**	(151)
Attributable to:		
• policyholders	**365**	(211)
• owners	**(130)**	60
Total tax charge/(credit)	**235**	(151)

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings was £365 million (2018: £211 million credit).

C6.2 Tax charged to other comprehensive income

	2019 £m	2018 £m
Current tax charge	**1**	–
Deferred tax charge on defined benefit schemes	**56**	8
Deferred tax charge on share schemes	**–**	2
	57	10

C6.3 Tax credited to equity

	2019 £m	2018 £m
Current tax credit on Tier 1 Notes	**(6)**	(3)

C6.4 Reconciliation of tax charge/(credit)

	2019 £m	2018 £m
Profit before tax	**351**	259
Policyholder tax (charge)/credit	**(365)**	211
(Loss)/profit before the tax attributable to owners	**(14)**	470
Tax (credit)/charge at standard UK rate of 19%[1]	**(3)**	89
Non-taxable income, gains and losses[2]	**3**	(31)
Disallowable expenses[3]	**22**	21
Prior year tax credit for shareholders[4]	**(51)**	(5)
Movement on acquired in-force amortisation at less than 19%	**9**	–
Profits taxed at rates other than 19%[5]	**(13)**	(14)
Recognition of previously unrecognised deferred tax assets[6]	**(47)**	–
Deferred tax rate change[7]	**(50)**	(4)
Other	**–**	4
Owners' tax (credit)/charge	**(130)**	60
Policyholder tax charge/(credit)	**365**	(211)
Total tax charge/(credit) for the period	**235**	(151)

1 The Phoenix operating segments are predominantly in the UK. The reconciliation of tax (credit)/charge has, therefore, been completed by reference to the standard rate of UK tax.

2 2019 non-taxable income, gains and losses includes non-taxable dividends and gains and non-taxable pension scheme valuation movement.

3 2019 disallowable deductions are primarily in relation to a consolidation adjustment on the PGL Pension scheme 'buy-in' agreement of £14 million, company acquisition costs of £1 million and a FCA thematic review provision in Standard Life Assurance Limited of £6 million.

4 The 2019 prior year credit primarily relates to the utilisation of trading losses in Standard Life Assurance Limited and Standard Life International DAC of £(4) million, Standard Life Assurance Limited YE18 tax provision true-up £(8) million, deferred tax asset recognition on software intangibles of £(20) million and deferred acquisition costs of £(6) million and the revised use of tax losses and other items £(13) million.

5 The 2019 profits taxed at rates other than 19% relates to overseas profits and UK life company profits subject to marginal shareholder tax rates.

6 The 2019 tax credit represents the recognition of tax losses in the Group companies £(12) million and intangible assets within Standard Life International DAC £(35) million.

7 The deferred tax rate change credit predominately relates to the Part VII transfer between Standard Life Assurance Limited and Standard Life International DAC of £(31) million and a reduction in AVIF tax rate relating to the German branch of £(19) million.

D. EQUITY

D1. Share Capital

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

	2019 £m	2018 £m
Issued and fully paid:		
721.5 million ordinary shares of £0.10 each (2018: 721.2 million)	**72**	72

The holders of ordinary shares are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits.

Movements in issued share capital during the year:

2019	**Number**	**£**
Shares in issue at 1 January	**721,199,214**	**72,119,921**
Other ordinary shares issued in the period	**315,730**	**31,573**
Shares in issue at 31 December	**721,514,944**	**72,151,494**

During the year, 315,730 shares were issued at a premium of £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

2018	Number	£
Shares in issue at 1 January	393,232,644	39,323,264
Ordinary shares issued under the rights issue	183,581,978	18,358,198
Ordinary shares issued to SLA plc	144,114,450	14,411,445
Other ordinary shares issued in the period	270,142	27,014
Shares in issue at 31 December	721,199,214	72,119,921

On 10 July 2018, the Group issued 183,581,978 shares following a rights issue undertaken in association with the acquisition of the Standard Life Assurance businesses where 7 rights issue shares were issued at 518 pence per new share for every 15 existing Old PGH shares held. The rights issue raised £951 million and proceeds, net of deduction of commission and expenses, were £934 million.

On 31 August 2018, the Group issued 144,114,450 shares to SLA plc, giving them a 19.98% equity stake in the Group valued at £1,023 million, based on the share price at that date.

During 2018, 270,142 shares were issued at a premium of £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

D2. Shares Held by the Employee Benefit Trust

Where the Phoenix Group Employee Benefit Trust ('EBT') acquires shares in the Company or obtains rights to purchase its shares, the consideration paid (including any attributable transaction costs, net of tax) is shown as a deduction from owners' equity. Gains and losses on sales of shares held by the EBT are charged or credited to the own shares account in equity.

D. EQUITY continued

D2. Shares Held by the Employee Benefit Trust continued

The EBT holds shares to satisfy awards granted to employees under the Group's share-based payment schemes.

	2019 £m	2018 £m
At 1 January	6	2
Shares acquired by the EBT	4	8
Shares awarded to employees by the EBT	(3)	(4)
At 31 December	7	6

During the year 508,639 (2018: 518,322) shares were awarded to employees by the EBT and 614,193 (2018: 1,188,435) shares were purchased. The number of shares held by the EBT at 31 December 2019 was 1,096,356 (2018: 990,802).

Old PGH provided the EBT with an interest-free facility arrangement to enable it to purchase the shares.

D3 Tier 1 Notes

The Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes ('Tier 1 Notes') meet the definition of equity and accordingly are shown as a separate category within equity at the proceeds of issue. The coupons on the instruments are recognised as distributions on the date of payment and are charged directly to the statement of consolidated changes in equity.

	2019 £m	2018 £m
Tier 1 Notes	494	494

On 26 April 2018, Old PGH issued £500 million of Tier 1 Notes, the proceeds of which were used to fund a portion of the cash consideration for the acquisition of the Standard Life Assurance businesses. The Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.75% per annum. up to the 'First Call Date' of 26 April 2028. Thereafter the fixed rate of interest will be reset on the First Call Date and on each fifth anniversary of this date by reference to a 5 year gilt yield plus a margin of 4.169%. Interest is payable on the Tier 1 Notes semi-annually in arrears on 26 October and 26 April. Coupon paid in the year was £29 million (2018: £14 million).

At the issue date, the Tier 1 Notes were unsecured and subordinated obligations of Old PGH. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

The Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company; accordingly the Tier 1 Notes meet the definition of equity for financial reporting purposes and are disclosed as such in the consolidated financial statements. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter.

The Tier 1 Notes may be redeemed at par on the First Call Date or on any interest payment date thereafter at the option of the Company and also in other limited circumstances. If such redemption occurs prior to the fifth anniversary of the Issue Date such redemption must be funded out of the proceeds of a new issuance of, or exchanged into, Tier 1 Own Funds of the same or a higher quality than the Tier 1 Notes. In respect of any redemption or purchase of the Tier 1 Notes, such redemption or purchase is subject to the receipt of permission to do so from the PRA. Furthermore, on occurrence of a trigger event, linked to the Solvency II capital position and as documented in the terms of the Tier 1 Notes, the Tier 1 Notes will be subject to a permanent write-down in value to zero.

D4. Non-Controlling Interests

Non-controlling interests are stated at the share of net assets attributed to the non-controlling interest holder at the time of acquisition, adjusted for the relevant share of subsequent changes in equity.

	SLPET £m
At 1 January 2019	294
Profit for the year	31
Dividends paid	(11)
At 31 December 2019	314

	SLPET £m
At 1 January 2018	–
Non-controlling interests recognised on acquisition of the Standard Life Assurance business (see note H2)	265
Profit for the year	31
Dividends paid	(2)
At 31 December 2018	294

The non-controlling interests of £314 million (2018: £294 million) reflects third party ownership of Standard Life Private Equity Trust ('SLPET') determined at the proportionate value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. As at 31 December 2019, the Group held 55.2% of the issued share capital of SLPET (2018: 55.2%).

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

Summary financial information showing the interest that non-controlling interests have in the Group's activities and cash flows is shown below:

SLPET	2019 £m	2018 £m
Statement of financial position:		
Investments	286	271
Other assets	40	23
Total assets	326	294
Total liabilities	12	–
Income statement:		
Revenue	34	33
Profit after tax	31	31
Comprehensive income	31	31
Cash flows:		
Net decrease in cash equivalents	4	3

E. FINANCIAL ASSETS & LIABILITIES

E1. Fair Values

Financial assets

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

Loans and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and only include assets where a security has not been issued. These loans and deposits are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are largely classified as held for trading. They are recognised initially at fair value and subsequently are remeasured to fair value. The gain or loss on remeasurement to fair value is recognised in the consolidated income statement. Derivative financial instruments are not classified as held for trading where they are designated and effective as a hedging instrument. For such instruments, the timing of the recognition of any gain or loss that arises on remeasurement to fair value in profit or loss depends on the nature of the hedge relationship.

Equities, debt securities and collective investment schemes are designated at FVTPL and accordingly are stated in the statement of consolidated financial position at fair value. They are designated at FVTPL because this is reflective of the manner in which the financial assets are managed and reduces a measurement inconsistency that would otherwise arise with regard to the insurance liabilities that the assets are backing.

Reinsurers share of investment contracts liabilities without DPF are valued, and associated gains and losses presented, on a basis consistent with investment contracts liabilities without DPF as detailed under the 'Financial liabilities' section below.

Impairment of financial assets

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

Fair value estimation

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

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

Associates

Investments in associates that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Investments in Associates and Joint Ventures*. These are measured at fair value through profit or loss. There is no investment in associates which are of a strategic nature.

Derecognition of financial assets

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

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

Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at FVTPL for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts without DPF and other liabilities designated at FVTPL) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at FVTPL and where doing so results in more meaningful information because either:

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

Investment contracts without DPF

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts and accounted for as financial liabilities.

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

E. FINANCIAL ASSETS & LIABILITIES continued

E1. Fair Values continued

The valuation of liabilities on unit-linked contracts is held at the fair value of the related assets and liabilities. The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Movements in the fair value of investment contracts without DPF and reinsurers' share of investment contract liabilities are included in the 'change in investment contract liabilities' in the consolidated income statement.

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

Deposits from reinsurers

It is the Group's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'deposits received from reinsurers' in the statement of consolidated financial position.

Net asset value attributable to unitholders

The net asset value attributable to unitholders represents the non-controlling interest in collective investment schemes which are consolidated by the Group. This interest is classified at FVTPL and measured at fair value, which is equal to the bid value of the number of units of the collective investment scheme not owned by the Group.

Obligations for repayment of collateral received

It is the Group's practice to obtain collateral in stock lending and derivative transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'obligations for repayment of collateral received' in the statement of consolidated financial position. The 'obligations for repayment of collateral received' are measured at amortised cost, which in the case of cash is equivalent to the fair value of the consideration received.

Derecognition of financial liabilities

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

Offsetting financial assets and financial liabilities

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

Hedge accounting

The Group designates certain derivatives as hedging instruments in order to effect cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note E3 sets out details of the fair values of the derivative instruments used for hedging purposes.

Where a cash flow hedging relationship exists, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in net investment income.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time is recycled to profit or loss over the period the hedged item impacts profit or loss.

E1.1 Fair values analysis

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2019:

2019	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	4,454	4,023	4,454
Designated upon initial recognition:			
Equities[1]	58,979	–	58,979
Investment in associate[1] (see note H3)	513	–	513
Debt securities	76,113	69,165	76,113
Collective investment schemes[1]	69,415	–	69,415
Reinsurers' share of investment contract liabilities[1]	8,881	–	8,881
Financial assets measured at amortised cost:			
Loans and deposits	516	62	516
Total financial assets[2]	218,871		218,871

	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	734	387	734
Designated upon initial recognition:			
Borrowings	99	99	99
Net asset value attributable to unitholders[1]	3,149	–	3,149
Investment contract liabilities[1]	120,773	–	120,773
Financial liabilities measured at amortised cost:			
Borrowings	2,020	2,008	2,223
Deposits received from reinsurers	4,213	3,751	4,213
Obligations for repayment of collateral received	3,671	–	3,671
Total financial liabilities	134,659		134,862

1 These assets and liabilities have no expected settlement date.

2 Total financial assets includes £2,050 million of assets held in a collateral account pertaining to the PGL pension scheme buy-in agreement. See note G1.2 for further details.

E. FINANCIAL ASSETS & LIABILITIES continued
E1. Fair Values continued
E1.1 Fair values analysis continued

2018 restated	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	3,798	3,608	3,798
Designated upon initial recognition:			
Equities[1]	52,716	–	52,716
Investment in associate[1]	496	–	496
Debt securities[2]	71,365	65,448	71,365
Collective investment schemes[1, 2]	67,692	–	67,692
Reinsurers' share of investment contract liabilities[1, 2]	8,331	–	8,331
Financial assets measured at amortised cost:			
Loans and deposits	423	77	423
Total financial assets[3]	204,821		204,821

	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	1,093	936	1,093
Designated upon initial recognition:			
Borrowings	127	113	127
Net asset value attributable to unitholders[1]	2,659	–	2,659
Investment contract liabilities[1]	114,463	–	114,463
Financial liabilities measured at amortised cost:			
Borrowings	2,059	2,048	2,011
Deposits received from reinsurers	4,438	4,077	4,438
Obligations for repayment of collateral received	2,645	–	2,645
Total financial liabilities	127,484		127,436

1 These assets and liabilities have no expected settlement date.

2 Comparative figures have been restated to ensure a consistent presentation for all similar items across the Group's subsidiaries, following the acquisition of the Standard Life Assurance businesses in 2018. See note A1 for further details.

3 Total financial assets includes £1,063 million of assets held in a collateral account pertaining to the PGL pension scheme buy-in agreement. See note G1.2 for further details.

E1.2 IFRS 9 Temporary exemption disclosures

Following application of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments* (see note A5) the table below separately identifies financial assets with contractual cash flows that are solely payments of principal and interest ('SPPI') (excluding those held for trading or managed on a fair value basis) and all other financial assets, measured at fair value through profit or loss.

	2019 £m	2018 £m
Financial assets with contractual cash flows that are SPPI excluding those held for trading or managed on a fair value basis:		
Loans and deposits	**516**	423
Cash and cash equivalents	**4,466**	4,926
Accrued income	**160**	151
Other receivables[1]	**1,199**	1,026
All other financial assets that are measured at fair value through profit or loss[2]	**218,355**	204,398

1 Other receivables excludes deferred acquisition costs.

2 The change in fair value during 2019 of all other financial assets that are measured at fair value through profit or loss is a £20,231 million gain (2018: £12,962 million loss).

An analysis of credit ratings of financial assets with contractual cash flows that are SPPI, excluding those held for trading or managed on a fair value basis, is provided below:

2019 Carrying value	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB and below £m**	**Non-rated[1] £m**	**Unit-linked £m**	**Total £m**
Loans and deposits	**–**	**21**	**47**	**164**	**–**	**284**	**–**	**516**
Cash and cash equivalents	**295**	**733**	**3,105**	**23**	**–**	**270**	**40**	**4,466**
Accrued income	**–**	**–**	**–**	**–**	**–**	**160**	**–**	**160**
Other receivables	**–**	**–**	**–**	**–**	**–**	**1,199**	**–**	**1,199**
	295	**754**	**3,152**	**187**	**–**	**1,913**	**40**	**6,341**

2018 Carrying value	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated[1] £m	Unit-linked £m	Total £m
Loans and deposits	–	7	46	–	–	370	–	423
Cash and cash equivalents	327	947	1,836	1,265	–	450	101	4,926
Accrued income	–	–	–	–	–	151	–	151
Other receivables	–	–	–	–	–	1,026	–	1,026
	327	954	1,882	1,265	–	1,997	101	6,526

1 The Group has assessed its non-rated assets as having a low credit risk.

E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair Value Hierarchy

E2.1 Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments

The fair value of financial instruments traded in active markets (such as exchange traded securities and derivatives) is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument. Greater depth and narrower bid-ask spread indicate higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

Level 2 financial instruments

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

Level 3 financial instruments

The Group's financial instruments determined by valuation techniques using non-observable market inputs are based on a combination of independent third party evidence and internally developed models. In relation to investments in hedge funds and private equity investments, non-observable third party evidence in the form of net asset valuation statements is used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required. Securities that are valued using broker quotes which could not be corroborated across a sufficient range of quotes are considered as Level 3. For a small number of investment vehicles and debt securities, standard valuation models are used, as due to their nature and complexity they have no external market. Inputs into such models are based on observable market data where applicable. The fair value of loans, derivatives and some borrowings with no external market is determined by internally developed discounted cash flow models using appropriate assumptions corroborated with external market data where possible.

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) during each reporting period.

Fair value hierarchy information for non-financial assets measured at fair value is included in note G3 for owner-occupied property and in note G4 for investment property.

E2.2 Fair value hierarchy of financial instruments

The tables below separately identify financial instruments carried at fair value from those measured on another basis but for which fair value is disclosed.

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	284	3,995	175	4,454
Financial assets designated at FVTPL upon initial recognition:				
Equities	57,383	–	1,596	58,979
Investment in associate	513	–	–	513
Debt securities	38,176	31,911	6,026	76,113
Collective investment schemes	67,513	1,256	646	69,415
Reinsurers' share of investment contract liabilities	8,856	25	–	8,881
	172,441	33,192	8,268	213,901
Total financial assets measured at fair value	172,725	37,187	8,443	218,355
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	516	–	516
	172,725	37,703	8,443	218,871

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	76	584	74	734
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	99	99
Net asset value attributable to unit-holders	3,149	–	–	3,149
Investment contract liabilities	–	120,773	–	120,773
	3,149	120,773	99	124,021
Total financial liabilities measured at fair value	3,225	121,357	173	124,755
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	1,974	249	2,223
Deposits received from reinsurers	–	4,213	–	4,213
Total financial liabilities for which fair values are disclosed	–	6,187	249	6,436
	3,225	127,544	422	131,191

2018 restated[1]	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	348	3,288	162	3,798
Financial assets designated at FVTPL upon initial recognition:				
Equities	51,347	–	1,369	52,716
Investment in associate	496	–	–	496
Debt securities	39,735	27,220	4,410	71,365
Collective investment schemes	65,680	1,219	793	67,692
Reinsurers' share of investment contract liabilities	8,295	36	–	8,331
	165,553	28,475	6,572	200,600
Total financial assets measured at fair value	165,901	31,763	6,734	204,398
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	423	–	423
	165,901	32,186	6,734	204,821

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	73	911	109	1,093
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	127	127
Net asset value attributable to unitholders	2,659	–	–	2,659
Investment contract liabilities	–	114,463	–	114,463
	2,659	114,463	127	117,249
Total financial liabilities measured at fair value	2,732	115,374	236	118,342
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	1,752	259	2,011
Deposits received from reinsurers	–	4,438	–	4,438
Total financial liabilities for which fair values are disclosed	–	6,190	259	6,449
	2,732	121,564	495	124,791

1 See note A1 for details of the restatements.

E2.3 Level 3 Financial instrument sensitivities

Level 3 investments in equities (including private equity and unlisted property investment vehicles) and collective investment schemes (including hedge funds) are valued using net asset statements provided by independent third parties, and therefore no sensitivity analysis has been prepared.

E2.3.1 Debt securities

Analysis of Level 3 debt securities	2019 £m	2018 restated[1] £m
Unquoted corporate bonds:		
Local authority loans	**262**	225
Private placements	**1,147**	776
Infrastructure loans	**341**	170
Equity release mortgages	**2,781**	2,020
Commercial real estate loans	**388**	449
Income strips	**690**	654
Bridging loans to private equity funds	**320**	–
Corporate transactions (see E2.3.3)	**43**	66
Other	**54**	50
Total Level 3 debt securities	**6,026**	4,410

1 See note A1 for details of the restatements.

Debt securities categorised as Level 3 investments predominantly comprise unquoted corporate bonds, equity release mortgages, commercial real estate loans, income strips, bridging loans to private equity funds and corporate transactions. The remaining Level 3 debt securities are valued using broker quotes. Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly. These assets are typically held to back investment contract liabilities and participating investments contracts and therefore fair value movements in such financial assets will typically be offset by corresponding movements in liabilities.

The Group holds unquoted corporate bonds comprising investments in local authority loans, private placements and infrastructure loans with a total value of £1,750 million (2018 restated: £1,171 million). These unquoted corporate bonds are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is taken from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £81 million (2018: £50 million) and a decrease of 35bps would increase the value by £87 million (2018: £52 million).

Included within debt securities are investments in equity release mortgages with a value of £2,781 million (2018: £2,020 million). The loans are valued using a discounted cash flow model and a Black-Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair Value Hierarchy continued

E2.3 Level 3 Financial instrument sensitivities continued

E2.3.1 Debt securities continued

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

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

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

The significant sensitivities arise from movements in the yield curve, inflation rate and house prices. An increase of 100bps in the yield curve would decrease the value by £265 million (2018: £183 million) and a decrease of 100bps would increase the value by £296 million (2018: £205 million). An increase of 1% in the inflation rate would increase the value by £26 million (2018: £11 million) and a decrease of 1% would decrease the value by £43 million (2018: £21 million).

An increase of 10% in house prices would increase the value by £15 million (2018: £6 million) and a decrease of 10% would decrease the value by £25 million (2018: £14 million). An increase of 5% in mortality would decrease the value by £8 million (2018: £5 million) and a decrease of 5% in mortality would increase the value by £5 million (2018: £3 million). An increase of 15% in the voluntary redemption rate would decrease the value by £17 million (2018: £9 million) and a decrease of 15% in the voluntary redemption rate would increase the value by £15 million (2018: £7 million).

Also included within debt securities are investments in commercial real estate loans of £388 million (2018: £449 million). The loans are valued using a model which discounts the expected projected future cash flows at the risk-free rate plus a spread derived from a basket of comparable securities. The valuation is sensitive to changes in the discount rate. An increase of 35bps in the discount rate would decrease the value by £7 million (2018: £7 million) and a decrease of 35bps would increase the value by £7 million (2018: £8 million).

Also included within debt securities are income strips with a value of £690 million (2018: £654 million). Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30-45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1). The income strips are valued using an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. The valuation is sensitive to movements in yield. An increase of 35bps would decrease the value by £66 million (2018: £70 million) and a decrease of 35bps would increase the value by £79 million (2018: £79 million).

E2.3.2 Borrowings

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £99 million (2018: £127 million), measured using an internally developed model. The valuation is sensitive to key assumptions of the discount rate and the house price inflation rate. An increase in the discount rate of 1% would increase the value by £1 million (2018: £2 million) and a decrease of 1% would decrease the value by £1 million (2018: £2 million). An increase of 1% in the house price inflation rate would decrease the value by £1 million (2018: £2 million) and a decrease of 1% would increase the value by £1 million (2018: £1 million).

E2.3.3 Corporate transactions

Included within financial assets and liabilities are related debt securities of £43 million (2018: £66 million), borrowings of £nil (2018: £13 million) and derivative liabilities of £4 million (2018: £13 million) pertaining to a reinsurance and retrocession arrangement (see note E3.2 for further information on these arrangements). These assets and liabilities are valued using a discounted cash flow model that includes valuation adjustments in respect of liquidity and credit risk. At 31 December 2019, the net of these balances was an asset of £39 million (2018: asset of £40 million). The valuation is sensitive to movements in the euro swap curve. An increase of 100bps in the swap curve would decrease the aggregate value by £2 million (2018: £2 million) and a decrease of 100bps would increase the aggregate value by £2 million (2018: £2 million).

Included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £134 million (2018: £162 million) and £70 million (2018: £96 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the EIOPA interest rate swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the net value by £13 million (2018: £16 million) and a decrease of 100bps would increase the net value by £17 million (2018: £22 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £10 million (2018: £13 million) and a decrease of 1% would decrease the value by £10 million (2018: £15 million).

E2.3.4 Derivatives

Included within derivative liabilities are forward local authority loans, forward private placements and forward infrastructure loans with a value of £41 million (2018: £nil). These investments include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates. These investments are valued using a discounted cash flow model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity. The credit spreads are derived from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £25 million (2018: £16 million) and a decrease of 35bps would increase the value by £28 million (2018: £17 million).

E2.4 Transfers of financial instruments between Level 1 and Level 2

2019	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Collective investment schemes	19	16
Debt securities	349	25

2018	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Debt securities	86	162

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

The application of the Group's fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads, resulted in an overall net movement of financial assets from Level 1 to Level 2 in the current period and from Level 2 to Level 1 in the comparative period.

E2.5 Movement in Level 3 financial instruments measured at fair value

2019	At 1 January 2019 £m	Net gains/(losses) in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2019 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets								
Derivatives	162	13	–	–	–	–	175	13
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,369	65	307	(387)	242	–	1,596	32
Debt securities	4,410	378	1,961	(721)	1	(3)	6,026	322
Collective investment schemes	793	(135)	1	(13)	–	–	646	(136)
	6,572	308	2,269	(1,121)	243	(3)	8,268	218
	6,734	321	2,269	(1,121)	243	(3)	8,443	231

2019	At 1 January 2019 £m	Net gains in income statement £m	Effect of purchases £m	Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2019 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	109	(35)	–	–	–	–	74	(35)
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	127	(6)	–	(22)	–	–	99	(6)
	236	(41)	–	(22)	–	–	173	(40)

E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair Value Hierarchy continued

E2.5 Movement in Level 3 financial instruments measured at fair value continued

2018 restated[1]	At 1 January 2018 £m	Net gains/ (losses) in income statement £m	Effect of acquisitions/ purchases £m	Sales £m	Transfers to Level 1 and Level 2 £m	At 31 December 2018 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets							
Derivatives	144	18	–	–	–	162	18
Financial assets designated at FVTPL upon initial recognition:							
Equities	607	205	839	(282)	–	1,369	147
Debt securities	1,855	20	2,717	(174)	(8)	4,410	35
Collective investment schemes	49	(51)	802	(7)	–	793	(47)
	2,511	174	4,358	(463)	(8)	6,572	135
	2,655	192	4,358	(463)	(8)	6,734	153

2018	At 1 January 2018 £m	Net losses in income statement £m	Effect of acquisitions/ purchases £m	Repayments £m	Transfers to Level 1 and Level 2 £m	At 31 December 2018 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities							
Derivatives	100	11	–	–	(2)	109	11
Financial liabilities designated at FVTPL upon initial recognition:							
Borrowings	182	2	–	(57)	–	127	2
	282	13	–	(57)	(2)	236	13

1 See note A1 for details of the restatements.

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

E3. Derivatives

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

Derivative financial instruments are largely classified as held for trading. Such instruments are recognised initially at fair value and are subsequently remeasured to fair value. The gain or loss on remeasurement to fair value is recognised in the consolidated income statement. Derivative financial instruments are not classified as held for trading where they are designated as a hedging instrument and where the resultant hedge is assessed as effective. For such instruments, any gain or loss that arises on remeasurement to fair value is initially recognised in other comprehensive income and is recycled to profit or loss as the hedged item impacts the profit or loss. See note E1 for further details of the Group's hedging accounting policy.

E3.1 Summary

The fair values of derivative financial instruments are as follows:

	Assets 2019 £m	**Liabilities 2019 £m**	Assets 2018 £m	Liabilities 2018 £m
Forward currency	**138**	**90**	60	79
Credit default swaps	**138**	**33**	13	17
Contracts for difference	**1**	**–**	1	2
Interest rate swaps	**1,738**	**143**	1,959	695
Total return bond swaps	**33**	**–**	10	4
Swaptions	**1,800**	**16**	912	3
Inflation swaps	**46**	**111**	34	46
Equity options	**344**	**161**	553	59
Stock index futures	**10**	**52**	45	23
Fixed income futures	**70**	**54**	47	50
Retrocession contracts	**–**	**4**	–	13
Longevity swap contracts	**134**	**70**	162	96
Currency futures	**2**	**–**	–	3
Foreign exchange options	**–**	**–**	2	–
Total return equity swaps	**–**	**–**	–	3
	4,454	**734**	3,798	1,093

E3.2 Corporate transactions

The Group has in place longevity swap arrangements with corporate pension schemes which do not meet the definition of insurance contracts under the Group's accounting policies. Under these arrangements the majority of the longevity risk has been passed to third parties. Derivative assets of £134 million and derivative liabilities of £70 million have been recognised as at 31 December 2019 (2018: £162 million and £96 million respectively).

In addition, the Group has 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 the insurance risk. Taken as a whole, this transaction does not give rise to the transfer of significant insurance risk to the Group and therefore does not meet the definition of an insurance contract under the Group's accounting policies. The fair value of amounts due from the cedant are recognised within debt securities (see note E1). The fair value of amounts due to the retrocessionaire are recognised as a derivative liability and totalled £4 million at 31 December 2019 (2018: £13 million).

E. FINANCIAL ASSETS & LIABILITIES continued

E4. Collateral Arrangements

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

Collateral received in the form of cash, where the Group has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of consolidated financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of consolidated financial position, unless the counterparty defaults on its obligations under the relevant agreement.

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

E4.1 Financial instrument collateral arrangements

The Group has no financial assets and financial liabilities that have been offset in the statement of consolidated financial position as at 31 December 2019 (2018: none).

The table below contains disclosures related to financial assets and financial liabilities recognised in the statement of consolidated financial position that are subject to enforceable master netting arrangements or similar agreements. Such agreements do not meet the criteria for offsetting in the statement of consolidated financial position as the Group has no current legally enforceable right to offset recognised financial instruments. Furthermore, certain related assets received as collateral under the netting arrangements will not be recognised in the statement of consolidated financial position as the Group does not have permission to sell or re-pledge, except in the case of default. Details of the Group's collateral arrangements in respect of these recognised assets and liabilities are provided below.

		Related amounts not offset		
2019 Financial assets	Gross and net amounts of recognised financial assets £m	Financial instruments and cash collateral received £m	Derivative liabilities £m	Net amount £m
OTC derivatives	3,908	3,542	43	323
Exchange traded derivatives	546	6	–	540
Stock lending	3,050	3,050	–	–
Total	**7,504**	**6,598**	**43**	**863**

		Related amounts not offset		
Financial liabilities	Gross and net amounts of recognised financial liabilities £m	Financial instruments and cash collateral pledged £m	Derivative assets £m	Net amount £m
OTC derivatives	650	313	43	294
Exchange traded derivatives	84	10	–	74
Total	**734**	**323**	**43**	**368**

2018 Financial assets	Gross and net amounts of recognised financial assets £m	Related amounts not offset Financial instruments and cash collateral received £m	Related amounts not offset Derivative liabilities £m	Net amount £m
OTC derivatives	3,435	2,804	455	176
Exchange traded derivatives	363	34	–	329
Stock lending	2,417	2,417	–	–
Total	6,215	5,255	455	505

Financial liabilities	Gross and net amounts of recognised financial liabilities £m	Related amounts not offset Financial instruments and cash collateral pledged £m	Related amounts not offset Derivative assets £m	Net amount £m
OTC derivatives	1,009	554	455	–
Exchange traded derivatives	84	8	–	76
Total	1,093	562	455	76

E4.2 Derivative collateral arrangements

Assets accepted

It is the Group's practice to obtain collateral to mitigate the counterparty risk related to over-the-counter ('OTC') derivatives usually in the form of cash or marketable financial instruments.

The fair value of financial assets accepted as collateral for OTC derivatives but not recognised in the statement of consolidated financial position amounts to £437 million (2018: £374 million).

The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2019 are set out below.

	OTC derivatives **2019** **£m**	OTC derivatives 2018 £m
Financial assets	**3,671**	2,619
Financial liabilities	**(3,671)**	(2,619)

The maximum exposure to credit risk in respect of OTC derivative assets is £3,908 million (2018: £3,435 million) of which credit risk of £3,585 million (2018: £3,259 million) is mitigated by use of collateral arrangements (which are settled net after taking account of any OTC derivative liabilities owed to the counterparty).

Credit risk on exchange traded derivative assets of £546 million (2018: £363 million) is mitigated through regular margining and the protection offered by the exchange.

Assets pledged

The Group pledges collateral in respect of its OTC derivative liabilities. The value of assets pledged at 31 December 2019 in respect of OTC derivative liabilities of £650 million (2018: £1,009 million) amounted to £692 million (2018: £554 million).

E4.3 Stock lending collateral arrangements

The Group lends listed financial assets held in its investment portfolio to other institutions.

The Group conducts stock lending only with well-established, reputable institutions in accordance with established market conventions. The financial assets do not qualify for derecognition as the Group retains all the risks and rewards of the transferred assets except for the voting rights.

It is the Group's practice to obtain collateral in stock lending transactions, usually in the form of cash or marketable financial instruments.

The fair value of financial assets accepted as such collateral but not recognised in the statement of consolidated financial position amounts to £3,306 million (2018: £2,746 million).

E. FINANCIAL ASSETS & LIABILITIES continued
E4. Collateral Arrangements continued
E4.3 Stock lending collateral arrangements continued
The maximum exposure to credit risk in respect of stock lending transactions is £3,050 million (2018: £2,417 million) of which credit risk of £3,050 million (2018: £2,417 million) is mitigated through the use of collateral arrangements.

E4.4 Other collateral arrangements
Details of collateral received to mitigate the counterparty risk arising from the Group's reinsurance transactions is given in note F3.

Collateral has also been pledged and charges have been granted in respect of certain Group borrowings. The details of these arrangements are set out in note E5.

E5. Borrowings
The Group classifies the majority of its interest bearing borrowings as financial liabilities carried at amortised cost and these are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the consolidated income statement over the period of the borrowing using the effective interest method.

Certain borrowings are designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reasons stated in the financial liabilities accounting policy (see note E1). Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

Borrowings are classified as either policyholder or shareholder borrowings. Policyholder borrowings are those borrowings where there is either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations.

E5.1 Analysis of borrowings

	Carrying value		Fair value	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Limited recourse bonds 2022 7.59% (note a)	**35**	45	**38**	50
Property reversions loan (note b)	**99**	114	**99**	114
Retrocession contracts (note c)	**–**	13	**–**	13
Total policyholder borrowings	**134**	172	**137**	177
£200 million 7.25% unsecured subordinated loan (note d)	**196**	186	**211**	209
£300 million senior unsecured bond (note e)	**121**	121	**130**	132
£428 million Tier 2 subordinated notes (note h)	**426**	426	**503**	441
£450 million Tier 3 subordinated notes (note i)	**449**	448	**473**	447
US $500 million Tier 2 bonds (note j)	**376**	390	**396**	342
€500 million Tier 2 bonds (note k)	**417**	443	**472**	390
Total shareholder borrowings	**1,985**	2,014	**2,185**	1,961
Total borrowings	**2,119**	2,186	**2,322**	2,138
Amount due for settlement after 12 months	**2,107**	2,174		

a. In 1998, Mutual Securitisation plc raised £260 million of capital through the securitisation of Embedded Value on a block of existing unit-linked and unitised with-profit life and pension policies. The bonds were split between two classes, which ranked pari passu and were listed on the Irish Stock Exchange. The £140 million 7.39% class A1 limited recourse bonds matured in 2012 with no remaining outstanding principal. The £120 million 7.59% class A2 limited recourse bonds with an outstanding principal of £36 million (2018: £48 million) have an average remaining life of 1 year and mature in 2022. Phoenix Life Assurance Limited ('PLAL') has provided collateral of £14 million (2018: £21 million) to provide security to the holders of the recourse bonds in issue. During 2019, repayments totalling £12 million were made (2018: £12 million).

b. The Property Reversions loan from Santander UK plc ('Santander') was recognised in the consolidated financial statements at fair value. It relates to the sale of Extra-Income Plan policies that Santander finances to the value of the associated property reversions. As part of the arrangement Santander receive an amount calculated by reference to the movement in the Halifax House Price Index and the Group is required to indemnify Santander against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years. During 2019, repayments totalling £22 million were made (2018: £25 million). Note G4 contains details of the assets that support this loan.

c. In July 2012, AXIA Insurance Limited ('AXIA') provided financing to Abbey Life, a Group company, for Abbey Life to in turn provide the financing for the securitisation of the future surplus arising on a block of 1.7 million life insurance policies originating from the wholly owned Spanish and Portuguese insurance subsidiaries of Banco Santander, S.A. (the 'Cedants'). This transaction was executed in the form of a reinsurance and retrocession arrangement that, taken as a whole, does not meet the definition of an insurance contract under the Group's accounting policies (see note E3.2). Abbey Life received an upfront reinsurance commission from AXIA and makes monthly repayments based on the surplus emerging from the securitised policies as defined in the contracts. The repayments comprise a minimum guaranteed surplus amount and a share of any excess surplus, net of a fee and certain other amounts. Any excess amount serves to accelerate the repayment of the principal. Repayments are contingent on the receipt of payments due from the Cedants. Repayment of the loan principal is expected to occur by 2021. The contracts are recognised in the consolidated financial statements at fair value. On 31 December 2018, the retrocession contracts were transferred from Abbey Life to Phoenix Life Limited ('PLL'), another Group company, under the terms of a scheme under Part VII of the Financial Services and Markets Act 2000.

   The contracts are recognised in the consolidated financial statements at fair value, which in the prior year was a liability of £13 million presented within borrowings and in the current year is an asset of £24 million presented within debt securities. The asset represents the excess of the fair value of the future fees under the reinsurance agreement over the remaining financing liability.

d. Scottish Mutual Assurance Limited issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001 ('PLL subordinated debt'). The earliest repayment date of the notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding. With effect from 1 January 2009, following a Part VII transfer, these loan notes were transferred into the shareholder fund of PLL. In the event of the winding-up of PLL, the right of payment under the notes is subordinated to the rights of the higher-ranking creditors (principally policyholders). As a result of the acquisition of the Phoenix Life businesses in 2009, these subordinated loan notes were acquired at their fair value and as such, the outstanding principal of these subordinated loan notes differs from the carrying value in the statement of consolidated financial position. The fair value adjustments, which were recognised on acquisition, will unwind over the remaining life of these subordinated loan notes. With effect from 23 December 2014, minor modifications were made to the terms of the notes to enable them to qualify as Tier 2 capital for regulatory reporting purposes. Expenses incurred in effecting these modifications amounted to £10 million. Given the modifications were not substantial, the carrying amount of the liability was adjusted accordingly and the expenses are being amortised over the life of the notes.

e. On 7 July 2014, the Group's financing subsidiary, PGH Capital plc ('PGHC'), issued a £300 million 7 year senior unsecured bond at an annual coupon rate of 5.75% ('£300 million senior bond'). On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £300 million senior bond. On 5 May 2017, Old PGH completed the purchase of £178 million of the £300 million senior bond at a premium of £25 million in excess of the principal amount. Accrued interest on the purchased bonds was settled on this date. On 18 June 2019, the Company was substituted in place of Old PGH as issuer of the £300 million 7 year senior unsecured bond.

f. In 2018, the Group had in place an unsecured revolving credit facility ('the facility'), maturing in June 2022. Old PGH drew down £295 million under the facility on 31 August 2018. Following the issuance of €500 million Tier 2 bond on 24 September 2018, the facility was fully repaid and remained undrawn at 31 December 2018. On 12 December 2018, the Company became an additional borrower and guarantor under the facility. On 27 June 2019, the Company replaced this facility with a new £1.25 billion unsecured revolving credit facility (see item l).

g. On 23 February 2018, Old PGH entered into an acquisition facility with an aggregate principal amount of £600 million and the Company became an additional borrower and guarantor under the acquisition facility on 12 December 2018. On 27 June 2019, the facility was cancelled.

h. On 23 January 2015, PGHC issued £428 million of subordinated notes due 2025 at a coupon of 6.625%. Fees associated with these notes of £3 million were deferred and are being amortised over the life of the notes in the statement of consolidated financial position. Upon exchange £32 million of these notes were held by Group companies. On 27 January 2017, £17 million of the £428 million subordinated notes held by Group companies were sold to third parties and a further £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £428 million subordinated notes and then on 12 December 2018 the Company was substituted in place of Old PGH as issuer.

i. On 20 January 2017, PGHC issued £300 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £300 million Tier 3 subordinated notes. On 5 May 2017, Old PGH completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017. The Group received a premium of £2 million in excess of the principal amount. Fees associated with these notes of £5 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

j. On 6 July 2017, Old PGH issued US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%. Fees associated with these notes of £2 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

k. On 24 September 2018, Old PGH issued €500 million Tier 2 notes due 2029 with a coupon of 4.375%. Fees associated with these notes of £7 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

E. FINANCIAL ASSETS & LIABILITIES continued
E5 Borrowings continued
E5.1 Analysis of borrowings continued

l. On 27 June 2019, the Company replaced its £900 million unsecured revolving credit facility (see item f) with a new £1.25 billion unsecured revolving credit facility (the 'revolving facility'), maturing in June 2024. There are no mandatory or target amortisation payments associated with the facility but the facility does include customary mandatory prepayment obligations and voluntary prepayments are permissible. The facility accrues interest at a margin over LIBOR that is based on credit rating. On 23 October 2019 the Company drew down £100 million under the revolving facility, the balance was fully repaid on 25 November 2019 and the facility remains undrawn as at 31 December 2019.

Changes to the Group's borrowings since 31 December 2019 have been detailed in note I7.

E5.2 Reconciliation of liabilities arising from financing

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes (with the exception of lease liabilities, which have been included in note G10). Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

		Cash movements		Non-cash movements			
	At 1 January 2019 £m	**New borrowings, net of costs £m**	**Repayments £m**	**Changes in fair value £m**	**Movement in foreign exchange £m**	**Other movements[1] £m**	**At 31 December 2019 £m**
Limited recourse bonds 2022 7.59%	**45**	**–**	**(12)**	**–**	**–**	**2**	**35**
Property Reversions loan	**114**	**–**	**(22)**	**7**	**–**	**–**	**99**
Retrocession contracts	**13**	**–**	**–**	**(13)**	**–**	**–**	**–**
£200 million 7.25% unsecured subordinated loan	**186**	**–**	**–**	**–**	**–**	**10**	**196**
£300 million senior unsecured bond	**121**	**–**	**–**	**–**	**–**	**–**	**121**
£1.25 billion revolving credit facility	**–**	**100**	**(100)**	**–**	**–**	**–**	**–**
£428 million Tier 2 subordinated notes	**426**	**–**	**–**	**–**	**–**	**–**	**426**
£450 million Tier 3 subordinated notes	**448**	**–**	**–**	**–**	**–**	**1**	**449**
US $500 million Tier 2 bonds	**390**	**–**	**–**	**–**	**(14)**	**–**	**376**
€500 million Tier 2 notes	**443**	**–**	**–**	**–**	**(27)**	**1**	**417**
	2,186	**100**	**(134)**	**(6)**	**(41)**	**14**	**2,119**

		Cash movements		Non-cash movements			
	At 1 January 2018 £m	New borrowings, net of costs £m	Repayments £m	Changes in fair value £m	Movement in foreign exchange £m	Other movements[1] £m	At 31 December 2018 £m
Limited recourse bonds 2022 7.59%	56	–	(12)	–	–	1	45
Property Reversions loan	131	–	(25)	8	–	–	114
Retrocession contracts	51	–	(32)	(6)	–	–	13
£200 million 7.25% unsecured subordinated loan	177	–	–	–	–	9	186
£300 million senior unsecured bond	121	–	–	–	–	–	121
£900 million unsecured revolving credit facility	–	295	(295)	–	–	–	–
£428 million subordinated notes	426	–	–	–	–	–	426
£450 million Tier 3 subordinated notes	448	–	–	–	–	–	448
US $500 million Tier 2 bonds	368	–	–	–	22	–	390
€500 million Tier 2 notes	–	438	–	–	5	–	443
	1,778	733	(364)	2	27	10	2,186

1 Comprises amortisation under the effective interest method applied to borrowings held at amortised cost.

E6. Risk Management – Financial Risk

This note forms one part of the risk management disclosures in the consolidated financial statements. The Group's management of insurance risk is detailed in note F4.

E6.1 Financial risk and the Asset Liability Management ('ALM') framework

The use of financial instruments naturally exposes the Group to the risks associated with them, chiefly market risk, credit risk and financial soundness risk.

Responsibility for agreeing the financial risk profile rests with the board of each life company, as advised by investment managers, internal committees and the Actuarial function. In setting the risk profile, the board of each life company will receive advice from the appointed investment managers, the relevant with-profit actuary and the relevant Actuarial function holder as to the potential implications of that risk profile with regard to the probability of both realistic insolvency and of failing to meet the regulatory Minimum Capital Requirement. The Chief Actuary will also advise the extent to which the investment risk taken is consistent with the Group's commitment to treat customers fairly.

Derivatives are used in many of the Group's funds, within policy guidelines agreed by the board of each life company and overseen by investment committees of the boards of each life company supported by management oversight committees. Derivatives are primarily used for risk hedging purposes or for efficient portfolio management, including the activities of the Group's Treasury function.

More detail on the Group's exposure to financial risk is provided in note E6.2 below.

The Group is also exposed to insurance risk arising from its Life business. Life insurance risk in the Group arises through its exposure to longevity, persistency, mortality and to other variances between assumed and actual experience. These variances can be in factors such as persistency levels and management, administrative expenses and new business pricing. More detail on the Group's exposure to insurance risk is provided in note F4.

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

E6.2 Financial risk analysis

Transactions in financial instruments result in the Group assuming financial risks. These include credit risk, market risk and financial soundness risk. Each of these are described below, together with a summary of how the Group manages the risk, along with sensitivity analysis where appropriate. The sensitivity analysis does not take into account second order impacts of market movements, for example, where a market movement may give rise to potential indicators of impairment for the Group's intangible balances.

E6.2.1 Credit risk

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 an obligation. These obligations can relate to both on and off balance sheet assets and liabilities.

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

- credit risk which results from direct investment activities, including investments in debt securities, derivatives counterparties, collective investment schemes and the placing of cash deposits; and
- credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the lending of securities.

The amount disclosed in the statement of consolidated financial position in respect of all financial assets, together with rights secured under off balance sheet collateral arrangements, and excluding the minority interest in consolidated collective investment schemes and those assets that back policyholder liabilities, represents the Group's maximum exposure to credit risk.

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

There is an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with-profit funds (to the extent that risks and rewards fall wholly to shareholders), non-profit funds and shareholders' funds.

The Group holds £10,800 million (2018: £9,917 million) of corporate bonds which are used to back annuity liabilities in non-profit funds. These annuity liabilities include an aggregate credit default provision of £583 million (2018: £496 million) to fund against the risk of default.

E. FINANCIAL ASSETS & LIABILITIES continued

E6. Risk Management – Financial Risk continued

E6.2 Financial risk analysis continued

E6.2.1 Credit risk continued

A 100bps widening of credit spreads, with all other variables held constant and no change in assumed expected defaults, would result in a decrease in the profit after tax in respect of a full financial year, and in equity, of £70 million (2018: £108 million).

A 100bps narrowing of credit spreads, with all other variables held constant and no change in assumed expected defaults, would result in an increase in the profit after tax in respect of a full financial year, and in equity, of £26 million (2018: £100 million).

Credit risk is managed by the monitoring of aggregate Group exposures to individual counterparties and by appropriate credit risk diversification. The Group manages the level of credit risk it accepts through credit risk tolerances. Credit risk on derivatives and securities lending is mitigated through the use of collateral with appropriate haircuts. The credit risk borne by the shareholder on with-profit policies is dependent on the extent to which the underlying insurance fund is relying on shareholder support.

Quality of credit assets

An indication of the Group's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table provides information regarding the aggregate credit exposure split by credit rating.

2019	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and deposits	–	21	47	164	–	284	–	516
Derivatives	–	11	2,194	1,484	–	759	6	4,454
Debt securities[1,2]	9,630	32,188	15,778	10,947	2,252	5,317	1	76,113
Reinsurers' share of insurance contract liabilities	–	5,913	1,366	–	–	45	–	7,324
Reinsurers' share of investment contract liabilities	–	–	–	–	–	–	8,881	8,881
Cash and cash equivalents	295	733	3,105	23	–	270	40	4,466
	9,925	38,866	22,490	12,618	2,252	6,675	8,928	101,754

1 For financial assets that do not have credit ratings assigned by external ratings agencies, the Group assigns internal ratings for use in management and monitoring of credit risk. £51 million of AAA, £433 million of AA, £1,354 million of A, £272 million of BBB and £90 million of BB and below debt securities are internally rated. If a financial asset is neither rated by an external agency nor internally rated, it is classified as 'non-rated'.

2 Non-rated debt securities includes equity release mortgages with a value of £2,781 million. Further details are set out in note E2.3.

2018 restated[1]	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and deposits	–	7	46	–	–	370	–	423
Derivatives	–	5	2,092	1,032	–	659	10	3,798
Debt securities[2,3]	9,743	31,446	13,712	10,894	2,248	3,123	199	71,365
Reinsurers' share of insurance contract liabilities	–	6,227	1,292	–	–	45	–	7,564
Reinsurers' share of investment contract liabilities	–	–	–	–	–	–	8,331	8,331
Cash and cash equivalents	327	947	1,836	1,265	–	450	101	4,926
	10,070	38,632	18,978	13,191	2,248	4,647	8,641	96,407

1 See note A1 for details of restatements.

2 For financial assets that do not have credit ratings assigned by external ratings the Group assigns internal ratings for use in management and monitoring credit risk. £64 million of AAA, £641 million of AA, £1,084 million of A, £291 million of BBB and £24 million of BB and below debt securities are internally rated.

3 Non-rated debt securities includes equity release mortgages with a value of £2,020 million. Further details are set out in note E2.3.

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

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

The Group operates an Internal Credit Rating Committee to perform oversight and monitoring of internal credit ratings for externally rated and internally rated assets. A variety of methods are used to validate the appropriateness of credit assessments from external institutions and fund managers. Internally rated assets are those that do not have a public rating from an external credit assessment institution. The internal credit ratings used by the Group are provided by fund managers or for certain assets (in particular, equity release mortgages) determined by the Life Companies. The Committee reviews the policies, processes and practices to ensure the appropriateness of the internal ratings assigned to asset classes.

The Group has increased exposure to illiquid credit assets (eg equity release mortgages and commercial real estate loans) with the aim of achieving greater diversification and investment returns.

A further indicator of the quality of the Group's financial assets is the extent to which they are neither past due nor impaired. All of the amounts in the table above for the current and prior year are neither past due nor impaired.

Please refer to page 255 for additional life company asset disclosures which include the life companies' exposure to peripheral Eurozone debt securities. Peripheral Eurozone is defined as Portugal, Spain, Italy, Ireland and Greece. The Group's exposure to peripheral Eurozone debt continues to be relatively small compared to total assets.

Concentration of credit risk

Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group has most of its counterparty risk within its life business and this is monitored by the counterparty limits contained within the investment guidelines and investment management agreements, overlaid by regulatory requirements and the monitoring of aggregate counterparty exposures across the Group against additional Group counterparty limits. Counterparty risk in respect of OTC derivative counterparties is monitored using a Potential Future Exposure ('PFE') value metric.

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

Reinsurance

The Group is exposed to credit risk as a result of insurance risk transfer contracts with reinsurers. This also gives rise to concentration of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group manages its exposure to reinsurance credit risk through the operation of a credit policy, collateralisation where appropriate, and regular monitoring of exposures at the Reinsurance Management Committee.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly in respect of stock lending, certain reinsurance arrangements and to provide security against the daily mark to model value of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed, and performs an impairment valuation when impairment indicators exist and the asset is not fully secured (and is not carried at fair value). See note E4 for further information on collateral arrangements.

E6.2.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate 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 and alternative asset class risk).

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

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

The Group manages the levels of market risk that it accepts through the operation of a market risk policy and an approach to investment management that determines:

- the constituents of market risk for the Group;
- the basis used to fair value financial assets and liabilities;
- the asset allocation and portfolio limit structure;
- diversification from and within benchmarks by type of instrument and geographical area;
- the net exposure limits by each counterparty or group of counterparties, geographical and industry segments;
- control over hedging activities;
- reporting of market risk exposures and activities; and
- monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment.

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

E. FINANCIAL ASSETS & LIABILITIES continued
E6. Risk Management – Financial Risk continued
E6.2 Financial risk analysis continued
E6.2.2 Market risk continued

Interest rate and inflation risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate relative to the respective liability due to the impact of changes in market interest rates on the value of interest-bearing assets and on the value of future guarantees provided under certain contracts of insurance. The paragraphs in this section also apply to inflation risk, but references to fixed rate assets and liabilities would be replaced with index-linked assets and liabilities.

Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the non-participating funds and supported participating funds. For unsupported participating business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. The with-profit funds of the Group provide capital to allow such mismatching to be effected. In practice, the life companies of the Group maintain an appropriate mix of fixed and variable rate instruments according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

The sensitivity analysis for interest rate risk indicates how changes in the fair value or future cash flows of a financial instrument arising from changes in market interest rates at the reporting date result in a change in profit after tax and in equity. It takes into account the effect of such changes in market interest rates on all assets and liabilities that contribute to the Group's reported profit after tax and in equity. Changes in the value of the Group's holdings in swaptions as the result of time decay or changes to interest rate volatility are not captured in the sensitivity analysis.

With-profit business and non-participating business within the with-profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest securities and derivatives. For unsupported with-profit business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits dependent on the existence of policyholder guarantees. The contribution of unsupported participating business to the Group result is largely limited to the shareholders' share of the declared annual bonus. The contribution of the supported participating business to the Group result is determined by the shareholders' interest in any change in value in the capital advanced to the with-profit funds.

In the non-participating funds, policy liabilities' sensitivity to interest rates are matched primarily with debt securities and hedging if necessary to match duration, with the result that sensitivity to changes in interest rates is very low. The Group's exposure to interest rates principally arises from the Group's hedging strategy to protect the regulatory capital position, which results in an adverse impact on profit on an increase in interest rates.

An increase of 1% in interest rates, with all other variables held constant would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £114 million (2018: £141 million).

A decrease of 1% in interest rates, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £233 million (2018: £211 million).

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

Equity and property risk

The Group has exposure to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities and property investments which is carried in the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's holdings are diversified across industries and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with-profit funds, unit-linked funds or equity release mortgages in the non-profit funds. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk, whilst the Group also has exposure to the value of guarantees provided to with-profit policyholders. In addition some equity investments are held in respect of shareholders' funds. For the non-profit fund property price risk from equity release mortgages is borne by the Group with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board. The Group as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds; this is primarily managed through the use of derivatives.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and treating customers fairly. This is largely achieved through asset class diversification and within the Group's ALM framework through the holding of derivatives or physical positions in relevant assets where appropriate.

The sensitivity analysis for equity and property price risk illustrates how a change in the fair value of equities and properties affects the Group result. It takes into account the effect of such changes in equity and property prices on all assets and liabilities that contribute to the Group's reported profit after tax and in equity (but excludes the impact on the Group's pension schemes).

A 10% decrease in equity prices, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £254 million (2018: £202 million).

A 10% increase in equity prices, with all other variables held constant, would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £200 million (2018: £197 million).

A 10% decrease in property prices, with all other variables held constant, would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £26 million (2018: £15 million).

A 10% increase in property prices, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £16 million (2018: £7 million).

The sensitivity to changes in equity prices is primarily driven by the Group's equity hedging arrangements over the value of future management charges that are linked to asset values.

Currency risk

With the exception of Standard Life business sold in Germany and the Republic of Ireland, and some historic business written in the latter, the Group's principal transactions are carried out in sterling. The assets for these books of business are generally held in the same currency denomination as their liabilities; therefore, any foreign currency mismatch is largely mitigated. Consequently, the foreign currency risk relating to this business mainly arises when the assets and liabilities are translated into sterling.

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

Some of the Group's with-profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the investment committees of the boards of each life company. Fluctuations in exchange rates from certain holdings in overseas assets are hedged against currency risks.

The Group has hedged the currency risk on its foreign currency hybrid debt ($500 million Tier 2 bonds and €500 million Tier 2 bonds as set out in note E5) through cross currency interest rate swaps.

Sensitivity of profit after tax and equity to fluctuations in currency exchange rates is not considered significant at 31 December 2019, since unhedged exposure to foreign currency was relatively low (2018: not considered significant).

E6.2.3 Financial soundness risk

Financial soundness risk is a broad risk category encompassing capital management risk, tax risk and liquidity and funding risk.

Capital management risk is defined as the failure of the Group, or one of its separately regulated subsidiaries, to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Group has exposure to capital management risk through the requirements of the Solvency II capital regime, as implemented by the PRA, to calculate regulatory capital adequacy at a Group level. The Group's UK life subsidiaries have exposure to capital management risk through the Solvency II regulatory capital requirements mandated by the PRA at the solo level. The Group's approach to managing capital management risk is described in detail in note I3.

Tax risk is defined as the risk of financial or reputational loss arising from a lack of liquidity, funding or capital due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation. 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. The Group's subsidiaries have exposure to tax risk through the annual statutory and regulatory reporting and through the processing of policyholder tax requirements.

Liquidity and funding 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 its subsidiaries. The Group's subsidiaries have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. The Board of Phoenix Group Holdings plc has defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

- liquidity risk is managed in a manner consistent with the subsidiary company boards' strategic objectives, risk appetite and Principles and Practices of Financial Management ('PPFM');
- cash flows are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

E. FINANCIAL ASSETS & LIABILITIES continued
E6. Risk Management – Financial Risk continued
E6.2 Financial risk analysis continued
E6.2.3 Financial soundness risk continued

The Group's policy is to maintain sufficient liquid assets of suitable credit quality at all times including, where appropriate, by having 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 regularly to predict required liquidity levels over both the short and medium term allowing management to respond appropriately to changes in circumstances.

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

The vast majority of the Group's derivative contracts are traded OTC and have a two-day collateral settlement period. The Group's derivative contracts are monitored daily, via an end-of-day valuation process, to assess the need for additional funds to cover margin or collateral calls.

Some of the Group's commercial property investments 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. This was invoked as a result of the market volatility experienced following the result of the referendum on membership of the European Union in 2016 in line with other firms across the industry. In 2018 and 2019, all unit trusts processed investments and realisations in a normal manner and have not imposed any restrictions or delays.

Some of the Group's cash and cash equivalents are held through collective investment schemes. The collective investment schemes have the power, in an extreme stress, to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the collective investment schemes have continued to process both investments and realisations in a normal manner and have not imposed any restrictions or delays.

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

2019	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	**16,135**	**23,299**	**56,209**	**–**	**95,643**
Investment contracts	**120,773**	**–**	**–**	**–**	**120,773**
Borrowings[1]	**122**	**1,119**	**1,382**	**99**	**2,722**
Deposits received from reinsurers[1]	**463**	**907**	**2,886**	**–**	**4,256**
Derivatives[1]	**347**	**103**	**346**	**–**	**796**
Net asset value attributable to unitholders	**3,149**	**–**	**–**	**–**	**3,149**
Obligations for repayment of collateral received	**3,671**	**–**	**–**	**–**	**3,671**
Reinsurance payables	**101**	**–**	**–**	**–**	**101**
Payables related to direct insurance contracts	**890**	**–**	**–**	**–**	**890**
Lease liabilities[1]	**13**	**32**	**78**	**–**	**123**
Accruals and deferred income	**375**	**6**	**3**	**–**	**384**
Other payables	**1,002**	**16**	**25**	**–**	**1,043**

2018	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	15,511	22,049	53,651	–	91,211
Investment contracts	114,463	–	–	–	114,463
Borrowings[1]	105	1,189	1,500	114	2,908
Deposits received from reinsurers[1]	361	1,371	2,767	–	4,499
Derivatives[1]	156	147	1,092	–	1,395
Net asset value attributable to unitholders	2,659	–	–	–	2,659
Obligations for repayment of collateral received	2,645	–	–	–	2,645
Reinsurance payables	30	–	–	–	30
Payables related to direct insurance contracts	902	–	–	–	902
Accruals and deferred income	329	5	3	–	337
Other payables	777	22	74	–	873

1 These financial liabilities are disclosed at their undiscounted value and therefore differ from amounts included in the statement of consolidated financial position which discloses the discounted value.

Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Group does not expect all these amounts to be paid out within one year of the reporting date.

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

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE

F1. Liabilities Under Insurance Contracts

Classification of contracts

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

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts or derivatives and accounted for as financial liabilities (see notes E1 and E3 respectively).

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

Contracts with reinsurers are assessed to determine whether they contain significant insurance risks. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are classified as financial instruments and are valued at fair value through profit or loss.

Insurance contracts and investment contracts with DPF

Insurance liabilities

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

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

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

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

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

The With-Profit Benefit Reserve ('WPBR') for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method. The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends.

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

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

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

Standard Life Assurance Limited ('SLAL'), a wholly owned subsidiary of the Group, includes the Heritage With Profits Fund ('HWPF'). In 2006, the Standard Life Assurance Company demutualised. The demutualisation was governed by its Scheme of Demutualisation ('the Scheme'). Under the Scheme substantially all of the assets and liabilities of the Standard Life Assurance Company were transferred to SLAL.

The Scheme of Demutualisation ('the Scheme') provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Ireland business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the Shareholder Fund ('SHF') or the Proprietary Business Fund ('PBF') of SLAL, and thus accrue to the ultimate benefit of equity holders of the Company. Under the Scheme, such transfers are subject to certain constraints in order to protect policyholders. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business in SLAL.

Under the realistic valuation, the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in the cost of future policy related liabilities (as a reduction where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure on non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition to the cost of future policy related liabilities. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above for the HWPF:

- The value of participating investment contract liabilities on the consolidated statement of financial position is reduced by future expected (net positive) cash flows arising on participating contracts.
- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF on the consolidated statement of financial position. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to reduce the value of participating insurance and participating investment contract liabilities on the statement of consolidated financial position.

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

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

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

Where it is not possible to apportion the future profits on this non-participating business to policyholders, the PVFP on this business is recognised as an intangible asset and changes in its value are recorded as a separate item in the consolidated income statement (see note G2).

The value of the PVFP is determined in a manner consistent with realistic measurement of liabilities. In particular, the methodology and assumptions involve adjustments to reflect risk and uncertainty, are based on current estimates of future experience and current market yields and allow for market consistent valuation of any guarantees or options within the contracts. The value is also adjusted to remove the value of capital backing the non-profit business if this is included in the realistic calculation of PVFP. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note F4.

Embedded derivatives

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

Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged to the consolidated income statement.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 *Insurance Contracts*, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the consolidated income statement.

Consolidated income statement recognition

Gross premiums

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

Gross benefits and claims

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

Reinsurance

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Reinsurance ceded

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

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

Reinsurance premiums payable in respect of certain reinsured individual and group pensions annuity contracts are payable by quarterly instalments and are accounted for on a payable basis. Due to the period of time over which reinsurance premiums are payable under these arrangements, the reinsurance premiums and related payables are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as a charge within the consolidated income statement.

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

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

Reinsurance accepted

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

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

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F1. Liabilities Under Insurance Contracts continued

The table below shows a summary of the liabilities under insurance contracts and the related reinsurers' share included within assets in the statement of consolidated financial position.

	Gross liabilities 2019 £m	Reinsurers' share 2019 £m	Gross liabilities 2018 £m	Reinsurers' share 2018 £m
Life assurance business:				
Insurance contracts	70,685	7,324	66,872	7,564
Investment contracts with DPF	24,958	–	24,339	–
	95,643	7,324	91,211	7,564
Amounts due for settlement after 12 months	79,508	6,532	75,700	6,801

	Gross liabilities 2019 £m	Reinsurers' share 2019 £m	Gross liabilities 2018 £m	Reinsurers' share 2018 £m
At 1 January	91,211	7,564	44,435	3,320
Premiums	4,038	556	2,645	481
Claims	(7,792)	(1,177)	(5,295)	(866)
Foreign exchange adjustments	(841)	(3)	35	–
Acquisition of Standard Life Assurance businesses	–	–	51,487	4,264
Other changes in liabilities[1]	9,027	384	(2,096)	365
At 31 December	95,643	7,324	91,211	7,564

1 Other changes in liabilities principally comprise changes in economic and non-economic assumptions and experience. Other changes in liabilities also includes the recognition of an additional £44 million (2018: £22 million) of policyholder liabilities on the crystallisation of obligations initially included within the FCA thematic reviews provision.

F2. Unallocated Surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with-profit business of the Group's life operations. For the Group's with-profit funds this represents amounts which have yet to be allocated to owners since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts.

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

In relation to the HWPF, amounts are considered to be allocated to shareholders when they emerge as recourse cash flows within the HWPF.

- The unallocated surplus of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future cash flows on non-participating contracts), the value of future additional expenses to be charged on German branch business and the effect of any measurement differences between the realistic value and the IFRS accounting policy value of all assets and liabilities other than participating contract liabilities recognised in the HWPF.
- The recourse cash flows are recognised as they emerge as an addition to shareholders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the German branch business they are recognised as an addition to equity holders' profits.

	2019 £m	2018 £m
At 1 January	1,358	925
Transfer to consolidated income statement	(84)	(88)
Acquisition of Standard Life Assurance	–	525
Foreign exchange movements	93	(4)
At 31 December	1,367	1,358

F3. Reinsurance

This section includes disclosures in relation to reinsurance. Further disclosures and accounting policies relating to reinsurance are included in note F1.

F3.1 Premiums ceded to reinsurers

Premiums ceded to reinsurers during the period were £556 million (2018: £481 million).

F3.2 Collateral arrangements

It is the Group's practice to obtain collateral to mitigate the counterparty risk related to reinsurance transactions usually in the form of cash or marketable financial instruments.

Where the Group receives collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised in the statement of consolidated financial position. The fair value of financial assets accepted as collateral for reinsurance transactions but not recognised in the statement of consolidated financial position amounts to £3,217 million (2018: £3,253 million).

Where the Group receives collateral on reinsurance transactions in the form of cash it is recognised in the statement of consolidated financial position along with a corresponding liability to repay the amount of collateral received, disclosed as 'Deposits received from reinsurers'. Where there is interest payable on such collateral, it is recognised within 'Net income under arrangements with reinsurers' (see note F3.3). The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2019 are set out below.

	Reinsurance transactions	
	2019 £m	2018 £m
Financial assets	**333**	373
Financial liabilities	**333**	373

F3.3 Net (expense)/income under arrangements with reinsurers

The Group has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within the HWPF. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the Group. The amount recognised in the statement of consolidated financial position in respect of this deposit is £3.9 billion as at 31 December 2019 (31 December 2018: £4.1 billion). Interest is payable to the reinsurer on the deposit at a floating rate. The Group maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the Group from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the Group is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included in investment return in the consolidated income statement is equal to an equivalent amount recognised in expenses under arrangements with reinsurers.

	2019 £m	2018 £m
Interest payable on deposits from reinsurers	**(33)**	(11)
Premium adjustments	**(241)**	13
Net (expense)/income under arrangements with reinsurers	**(274)**	2

F4. Risk Management – Insurance Risk

This note forms one part of the risk management disclosures in the consolidated financial statements. Financial risk is included in note E6.

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The contracts for the Life businesses include the following sources of insurance risk:

Mortality	higher than expected death claims on assurance products or lower than expected improvements in mortality;
Longevity	lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality;
Morbidity	higher than expected number of serious illness claims or more sickness claims which last longer on income protection policies;
Expenses	unexpected timing or value of expenses incurred;
Lapses	adverse movement in surrender rates, GAO surrender rates, GAO take-up rates, policyholder retirement dates or the occurrence of a mass lapse event leading to losses; and
Pricing	inappropriate pricing of new business that is not in line with the underlying risk factors for that business.

Objectives and policies for mitigating insurance risk

The Group uses several methods to assess and monitor insurance risk exposures for both individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing. In addition to this, mortality, longevity and morbidity risks may in certain circumstances be mitigated by the use of reinsurance.

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

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

The Group's longevity risk exposures have increased as a result of the Bulk Purchase Annuity deals it has successfully acquired; however, the vast majority of these exposures are reinsured to third parties.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. Risk Management – Insurance Risk continued

Sensitivities

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

A decrease of 5% in assurance mortality, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £58 million (2018: £54 million).

An increase of 5% in assurance mortality, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £58 million (2018: £54 million).

A decrease of 5% in annuitant longevity, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £288 million (2018: £265 million).

An increase of 5% in annuitant longevity, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £298 million (2018: £273 million).

A decrease of 10% in lapse rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £20 million (2018: £27 million).

An increase of 10% in lapse rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £20 million (2018: £26 million).

F4.1 Assumptions

For participating business which is with-profit business (insurance and investment contracts), the insurance contract liability is calculated on a realistic basis, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability. This is a market consistent valuation, which involved placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

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

The assumptions used to determine the liabilities, under these valuation methods are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. The principal assumptions are as follows:

Discount rates

The Group discounts participating and non-participating insurance contract liabilities at a risk-free rate derived from the swap yield curve, plus an illiquidity premium of 10bps.

For certain non-participating insurance contract liabilities (eg. annuities), the Group makes a further explicit adjustment to the risk-free rate to reflect illiquidity in respect of the assets backing those liabilities.

Expense inflation

Expenses are assumed to increase at either the rate of increase in the Retail Price Index ('RPI'), or a rate derived from the UK inflation swaps curve, plus fixed margins in accordance with the various management service agreements ('MSAs') the Group has in place with outsource partners. For with-profit business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations may then be added to the rate of expense inflation.

Mortality and longevity rates

Mortality rates are based on company experience and published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

Lapse and surrender rates (persistency)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the relevant company. Surrender or voluntary premium discontinuances are only assumed for realistic basis companies. Withdrawal rates used in the valuation of with-profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rate

For realistic basis funds, the regular bonus rates assumed in each scenario are determined in accordance with each company's PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

Policyholder options and guarantees

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

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

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

Some pensions contracts include guaranteed annuity options. The total amount provided in the with-profit and non-profit funds in respect of the future costs of guaranteed annuity options are £1,986 million (2018: £1,865 million) and £109 million (2018: £93 million) respectively.

In common with other life companies in the UK which have written pension transfer and opt-out business, the Group has set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases and using a certainty equivalent approach, which give a result very similar to a market consistent valuation, are included in liabilities arising under insurance contracts. The total amount provided in the with-profit funds and non-profit funds in respect of the review and possible redress relating to pension policies, including associated costs, are £225 million (2018: £298 million) and £6 million (2018: £7 million) respectively.

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

Demographic prudence margin

For non-participating insurance contract liabilities, the Group sets assumptions at management's best estimates and recognises an explicit margin for demographic risks. For participating business in realistic basis companies, the assumptions about future demographic trends represent 'best estimates'.

Assumption changes

During the year a number of changes were made to assumptions to reflect changes in expected experience or to reflect transition activity. The impact of material changes during the year was as follows:

	(Decrease)/ increase in insurance liabilities 2019 £m	(Decrease)/ increase in insurance liabilities 2018 £m
Change in longevity assumptions	**(186)**	(168)
Change in persistency assumptions	**19**	(12)
Change in mortality assumptions	**17**	(16)
Change in expenses assumptions	**(68)**	(28)

2019:

The £186 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and where applicable the most recent Continuous Mortality Investigation 2018 projection tables.

The £19 million and £17 million negative impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £68 million positive impact of changes in expense assumptions principally reflects updated expense assumptions for insurance contracts reflecting reduced future servicing costs as a result of transition activity.

2018:

The £168 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and where applicable the most recent Continuous Mortality Investigation 2017 projection tables.

The £12 million and £16 million positive impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £28 million positive impact of changes in expense assumptions principally reflects updated investment expenses in light of updates made to the asset mix and to reflect changes to agreements with the Group's external funds managers.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued
F4. Risk Management – Insurance Risk continued
F4.2 Managing product risk
The following sections give an assessment of the risks associated with the Group's main life assurance products and the ways in which the Group manages those risks.

	Gross[1]		Reinsurance	
2019	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	8,468	63	924	–
Deferred annuities – without guarantees	1,133	–	–	–
Immediate annuities	7,178	–	4,580	–
Unitised with-profit	12,940	23,021	–	–
Total pensions	29,719	23,084	5,504	–
Life:				
Immediate annuities	173	–	4	–
Unitised with-profit	6,386	774	–	–
Life with-profit	2,171	–	4	–
Total life	8,730	774	8	–
Other	1,061	–	205	–
Non-profit funds:				
Deferred annuities – without guarantees	824	–	–	–
Immediate annuities	19,635	–	1,567	–
Protection	686	–	76	–
Unit-linked	10,182	1,083	33	–
Other	(152)	17	(69)	–
	70,685	24,958	7,324	–

1 £5,320 million (2018: £4,605 million) of liabilities are subject to longevity swap arrangements.

2018	Gross Insurance contracts £m	Gross Investment contracts with DPF £m	Reinsurance Insurance contracts £m	Reinsurance Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	8,329	69	807	–
Deferred annuities – without guarantees	1,111	–	–	–
Immediate annuities	7,583	–	4,808	–
Unitised with-profit	11,717	22,449	(3)	–
Total pensions	28,740	22,518	5,612	–
Life:				
Immediate annuities	171	–	4	–
Unitised with-profit	6,145	791	(79)	–
Life with-profit	2,391	–	3	–
Total life	8,707	791	(72)	–
Other	1,237	–	208	–
Non-profit funds:				
Deferred annuities – without guarantees	844	–	–	–
Immediate annuities	17,600	–	1,776	–
Protection	488	–	80	–
Unit-linked	9,440	1,021	44	–
Other	(184)	9	(84)	–
	66,872	24,339	7,564	–

With-profit fund (unitised and traditional)

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

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

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profit funds is set out in the PPFM for each with-profit fund and is overseen by with-profit committees. Advice is also taken from the with-profit actuary of each with-profit fund. Compliance with the PPFM is reviewed annually and reported to the PRA, Financial Conduct Authority ('FCA') and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and £nil for others. For the HWPF, under the Scheme, shareholders are entitled to receive certain defined cash flows arising on specified blocks of UK and Irish business.

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

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. Risk Management – Insurance Risk continued

F4.2 Managing product risk continued

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in, i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ('GCO') policies. In addition, certain unit prices in the HWPF are guaranteed not to decrease.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates (see note E6.2.2).

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

Immediate annuities

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

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

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

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

Protection

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

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

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES

G1. Pension Schemes

Defined contribution pension schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

Defined benefit pension schemes

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by Group entities to the defined benefit pension schemes (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contract liabilities and investment contract liabilities.

As required by IFRIC 14, IAS 19 *'The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'*, to the extent that the economic surplus (prior to the elimination of the insurance policies issued by Group entities) will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. The Group recognises a pension surplus on the basis that it is entitled to the surplus of each scheme in the event of a gradual settlement of the liabilities, due to its ability to order a winding up of the Trust.

Additionally under IFRIC 14 pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the Scheme, a liability is recognised when the obligation arises. The net defined benefit asset/liability represents the economic surplus net of all adjustments noted above.

The Group determines the net interest expense or income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the opening net defined benefit asset/liability. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The movement in the net defined benefit asset/liability is analysed between the service cost, past service cost, curtailments and settlements (all recognised within administrative expenses in the consolidated income statement), the net interest cost on the net defined benefit asset/liability, including any reimbursement assets (recognised within net investment income in the consolidated income statement), remeasurements of the net defined asset/liability (recognised in other comprehensive income) and employer contributions.

This note describes the Group's three main staff pension schemes for its employees, the Pearl Group Staff Pension Scheme ('the Pearl Scheme'), the PGL Pension Scheme, and the Abbey Life Staff Pension Scheme ('Abbey Life Scheme') and explains how the pension asset/liability is calculated.

An analysis of the defined benefit asset/(liability) for each pension scheme is set out below:

	2019 £m	2018 £m
Pearl Group Staff Pension Scheme		
Economic surplus	**521**	449
Minimum funding requirement obligation	**(24)**	(37)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(183)**	(157)
Net defined benefit asset	**314**	255
PGL Pension Scheme		
Economic surplus (including £nil million (2018: £432 million) available as a refund on a winding-up of the Scheme)	**37**	506
Adjustment for amounts due to subsidiary eliminated on consolidation	**13**	–
Adjustment for insurance policies eliminated on consolidation	**(1,687)**	(877)
Net economic deficit	**(1,637)**	(371)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**–**	(151)
Net defined benefit liability	**(1,637)**	(522)
Abbey Life Staff Pension Scheme		
Net defined benefit liability	**(75)**	(74)

Risks

The Group's defined benefit schemes typically expose the Group to a number of risks, the most significant of which are:

Asset volatility – the value of the schemes' assets will vary as market conditions change and as such is subject to considerable volatility. The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The majority of the assets are held within a liability driven investment strategy which is linked to the funding basis of the schemes (set with reference to government bond yields). As such, to the extent that movements in corporate bond yields are out of line with movements in government bond yields, volatility will arise.

Inflation risk – a significant proportion of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are held within a liability driven investment strategy which allows for movements in inflation, meaning that changes in inflation should not materially affect the surplus.

Life expectancy – the majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. For the PGL scheme, this is partially offset by the buy in policies that move in line with the liabilities. These buy in policies are eliminated on consolidation (see note G1.2 for further details).

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

Information on each of these schemes is set out below.

Guaranteed Minimum Pension ('GMP') Equalisation

GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP. A High Court case concluded on 26 October 2018 and confirmed that GMPs need to be equalised. The Group has undertaken an initial assessment, and has included an allowance for the potential cost of equalising GMP for the impact between males and females in its IAS 19 actuarial liabilities as at 31 December 2018, pending further discussions with the scheme Trustees and the issuance of guidance as to how equalisation should be achieved. The cost of GMP equalisation across all schemes of £59 million (Pearl Scheme: £32 million; PGL Scheme: £23 million; and Abbey Scheme £4 million) was recognised as a past service cost in the 2018 consolidated income statement. As at 31 December 2019 it is considered that the current rate of uplift to the liabilities as a result of the GMP equalisation remains appropriate.

G1.1 Pearl Group Staff Pension Scheme

Scheme details

The Pearl Scheme comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members, and since 1 July 2011 are also closed to future accrual by active members.

Defined benefit scheme

The Pearl Scheme is established under, and governed by, the trust deeds and rules and is funded by payment of contributions to a separately administered trust fund. A Group company, Pearl Group Holdings No.2 Limited ('PGH2'), is the principal employer of the Pearl Scheme. The principal employer meets the administration expenses of the Pearl Scheme. The Pearl Scheme is administered by a separate Trustee company, P.A.T. (Pensions) Limited, which is separate from the Company. The Trustee company is comprised of two representatives from the Group, three member nominated representatives and one independent trustee in accordance with the Trustee company's articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally, pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the Scheme, a liability is recognised when the obligation arises.

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2019, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

A triennial funding valuation of the Pearl Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £104 million, on the agreed technical provisions basis. The cash flows utilised in the IFRS valuation as at 31 December 2018 were updated to reflect the latest data available from the 30 June 2018 funding valuation and together with the impact of modelling enhancements implemented during 2018, this resulted in the recognition of an experience loss of £145 million in 2018. The funding and IFRS accounting bases of valuation can give rise to different results for a number of reasons. The funding basis of valuation is based on general principles of prudence whereas the accounting valuation is based on best estimates. Discount rates are gilt-based for the funding valuation whereas the rate used for IFRS valuation purposes is based on a yield curve for high quality AA-rated corporate bonds. In addition the values are prepared at different dates which will result in differences arising from changes in market conditions and employer contributions made in the subsequent period.

On 27 November 2012 the principal employer and the Trustee of the Pearl Scheme entered into a revised pensions funding agreement (the 'Pensions Agreement'), the principal terms of which were not altered following finalisation of the 30 June 2018 triennial valuation. The principal terms of the Pensions Agreement are:

- annual cash payments into the Scheme of £70 million in 2013 and 2014 payable on 30 September, followed by payments of £40 million each year from 2015 to 2021. The timing of payment of contributions changed during 2017 so that the contributions are paid on a monthly basis following the last annual payment of £40 million completed in September 2016. The Pensions Agreement includes a sharing mechanism, related to the level of dividends paid out of PGH2, that in certain circumstances allows for an acceleration of the contributions to be paid to the Pearl Scheme;
- additional contributions may become payable if the Scheme is not anticipated to meet the two agreed funding targets:
  - (i) to reach full funding on the technical provisions basis by 30 June 2022; and
  - (ii) to reach full funding on a gilts flat basis by 30 June 2031;
- the Trustee continues to benefit from a first charge over shares in Phoenix Life Assurance Limited, National Provident Life Limited, Pearl Group Services Limited and PGS2 Limited. The security claim granted under the share charges is capped at the lower of £600 million and 100% of the Pearl Scheme deficit (calculated on a basis linked to UK government securities) revalued every three years thereafter; and
- covenant tests relating to the Embedded Value of certain companies with the Group.

It should be noted that the terms of the £1.25 billion facility agreement (see note E5) restrict the Group's ability, with certain exceptions, to transfer assets into the secured companies over which the Trustee holds a charge over shares.

An additional liability of £24 million (2018: £37 million) has been recognised, reflecting a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions of £69 million (2018: £106 million) in accordance with the minimum funding requirement. A deferred tax asset of £12 million (2018: £18 million) has also been recognised to reflect tax relief at a rate of 17% (2018: 17%) that is expected to be available on the contributions, once paid into the Scheme.

Contributions totalling £40 million were paid into the Pearl Scheme in 2019 (2018: £40 million) reflecting the monthly instalments.

Liability management exercise

In June 2018, the Group commenced a pension increase exchange ('PIE') exercise in respect of the Pearl Scheme. Existing in-scope pensioners were offered the option to exchange future non-statutory pension increases for a one-off uplift to their current pension, thereby reducing longevity and inflation risk for the Group. The financial effect of all acceptances received was recognised in the 2018 consolidated financial statements as a reduction in scheme liabilities of £2 million shown as past service credit in the consolidated income statement.

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2019	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January	2,631	(2,182)	(157)	(37)	255
Interest income/(expense)	73	(60)	(4)	(1)	8
Included in profit or loss	73	(60)	(4)	(1)	8
Remeasurements:					
Return on plan assets excluding amounts included in interest income	202	–	–	–	202
Gain from changes in demographic assumptions	–	12	–	–	12
Loss from changes in financial assumptions	–	(206)	–	–	(206)
Experience gain	–	11	–	–	11
Change in provision for tax on economic surplus available as a refund	–	–	(22)	–	(22)
Change in minimum funding requirement obligation	–	–	–	14	14
Included in other comprehensive income	202	(183)	(22)	14	11
Employer's contributions	40	–	–	–	40
Benefit payments	(112)	112	–	–	–
At 31 December	2,834	(2,313)	(183)	(24)	314

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.1 Pearl Group Staff Pension Scheme continued

2018	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January	2,722	(2,150)	(200)	(50)	322
Interest income/(expense)	67	(52)	(5)	(1)	9
Past service cost	–	(30)	–	–	(30)
Included in profit or loss	67	(82)	(5)	(1)	(21)
Remeasurements:					
Return on plan assets excluding amounts included in interest income	(81)	–	–	–	(81)
Gain from changes in demographic assumptions	–	8	–	–	8
Gain from changes in financial assumptions	–	70	–	–	70
Experience loss	–	(145)	–	–	(145)
Change in provision for tax on economic surplus available as a refund	–	–	48	–	48
Change in minimum funding requirement obligation	–	–	–	14	14
Included in other comprehensive income	(81)	(67)	48	14	(86)
Employer's contributions	40	–	–	–	40
Benefit payments	(117)	117	–	–	–
At 31 December	2,631	(2,182)	(157)	(37)	255

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2019		2018	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Hedging portfolio	**1,569**	**(18)**	2,012	(4)
Equities	**–**	**–**	–	–
Fixed interest gilts	**56**	**–**	54	–
Other debt securities	**1,329**	**–**	1,251	–
Properties	**266**	**266**	294	294
Private equities	**19**	**19**	28	28
Hedge funds	**6**	**6**	15	15
Cash and other	**111**	**–**	92	–
Obligations for repayment of stock lending collateral received	**(522)**	**–**	(1,115)	–
	2,834	**273**	2,631	333

The Group ensures that the investment positions are managed within an Asset Liability Matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the Pearl Scheme. Within this framework an allocation of 25% of the scheme assets is invested in collateral for interest rate and inflation rate hedging where the intention is to hedge greater than 90% of the interest rate and inflation rate risk measured on the Technical Provisions basis.

The Pearl Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities which are disclosed in the table above as 'Hedging Portfolio' assets. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value in the form of cash in return which is typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bond, hence the bonds continue to be recognised as scheme assets with a corresponding liability to repay the cash received as disclosed in the table above.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 40% (2018: 40%); and
- Pensioners: 60% (2018: 60%)

The weighted average duration of the defined benefit obligation at 31 December 2019 is 16 years (2018: 16 years).

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out in the table below:

	2019 %	2018 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**2.90**	3.10
Rate of increase for deferred pensions ('CPI')	**2.20**	2.40
Discount rate	**2.00**	2.80
Inflation – RPI	**3.00**	3.20
Inflation – CPI	**2.20**	2.40

The discount rate and inflation rate assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Pearl Scheme's liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from the actual mortality experience in recent years based on the SAPS standard tables for males and for females based on year of use. Future longevity improvements from 1 January 2017 are based on amended CMI 2018 Core Projections (2018: CMI 2017 Core Projections) and a long-term rate of improvement of 1.60% (2018: 1.75%) per annum for males and 1.30% (2018: 1.50%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 29.8 years and 32.2 years for male and female members respectively (2018: 29.9 and 32.2 respectively).

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.1 Pearl Group Staff Pension Scheme continued

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2019

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		**25bps increase**	**25bps decrease**	**25bps increase**	**25bps decrease**	**1 year increase**	**1 year decrease**
Impact on the defined benefit obligation (£m)	**2,313**	**(85)**	**93**	**71**	**(65)**	**84**	**(84)**

2018

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	2,182	(82)	85	65	(76)	79	(79)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension asset recognised within the statement of financial position.

G1.2 PGL Pension Scheme

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

Scheme details

Defined contribution scheme

Contributions in the year amounted to £7 million (2018: £7 million).

Defined benefit scheme

The defined benefit section of the PGL Pension Scheme is a final salary arrangement which is closed to new entrants and has been closed to future accrual by active members since 1 July 2011.

The PGL Scheme is administered by a separate trustee company, PGL Pension Trustee Ltd. The trustee company is comprised of two representatives from the Group, three member nominated representatives and one independent trustee in accordance with the trustee company's articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

The valuation has been based on an assessment of the liabilities of the PGL Pension Scheme as at 31 December 2019, undertaken by independent qualified actuaries.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made.

A triennial funding valuation of the PGL Pension Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £246 million. The IFRS valuation cash flows have been updated to reflect the latest valuation data.

There are no further committed contributions to pay in respect of the defined benefit section of the Scheme.

Insurance policies with Group entities

In June 2014, the PLL non-profit fund entered into a longevity swap with the PGL Pension Scheme with effect from 1 January 2014, under which the Scheme transferred the risk of longevity improvements to PLL. The financial effect of this contract was eliminated on consolidation.

In December 2016, the PGL Pension Scheme entered into a 'buy-in' agreement with PLL, which converted the longevity swap contract into a bulk annuity contract. The Scheme transferred certain additional risks in respect of the benefits payable to the deferred members covered by the longevity swap arrangement, including the investment risk associated with the assets covering those benefits. The Scheme transferred £1,164 million of plan assets to a collateral account and this transfer constituted the payment of premium to PLL, and was net of a £23 million prepayment by PLL to the Scheme in respect of benefits up to 31 May 2017. The assets transferred to PLL are recognised in the relevant line within financial assets in the statement of consolidated financial position (see note E1). An adjustment of £6 million to the value of the premium was paid by PLL to the PGL Scheme in 2017. The economic effect of the 'buy-in' transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation. The value of this insurance policy in December 2016 was £892 million.

At the same time as the December 2016 buy-in transaction, there was a rule change made with respect to pre-1997 excess benefits for members of the Phoenix section of the PGL Pension Scheme. Pension increases are now increased in line with CPI inflation subject to a maximum of 5% per annum. Prior to this, members received discretionary increases in payment on these benefits with the discretionary increases not allowed for in the defined benefit obligation.

In March 2019, the PGL Pension Scheme entered into a further 'buy-in' agreement with Phoenix Life Limited ('PLL') which covered the remaining pensioner and deferred members of the Scheme. The scheme transferred £1,115 million of plan assets to a collateral account and this transfer constituted the payment of premium to PLL. An adjustment of £13 million to the value of the premium is due to be paid to PLL in 2020. The assets transferred to PLL are recognised in the relevant line within financial assets in the statement of consolidated financial position. As with the initial 'buy-in' transaction completed in December 2016, the economic effect of the transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation. The value of this insurance policy at the date of the buy-in was £670 million.

The value of the insurance policies with Group entities at 31 December 2019 is £1,687 million (2018: £877 million).

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2019	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January	**1,157**	**(1,528)**	**(151)**	**(522)**
Interest income/(expense)	**10**	**(39)**	**(5)**	**(34)**
Administrative expenses	**(3)**	**–**	**–**	**(3)**
Included in profit or loss	**7**	**(39)**	**(5)**	**(37)**
Remeasurements:				
Return on plan assets excluding amounts included in interest income	**10**	**–**	**–**	**10**
Experience loss	**–**	**(34)**	**–**	**(34)**
Loss from changes in financial assumptions	**–**	**(175)**	**–**	**(175)**
Gain from changes in demographic assumptions	**–**	**11**	**–**	**11**
Change in provision for tax on economic surplus available as a refund	**–**	**–**	**156**	**156**
Included in other comprehensive income	**10**	**(198)**	**156**	**(32)**
Benefit payments	**(74)**	**74**	**–**	**–**
Income received from insurance policies	**69**	**–**	**–**	**69**
Assets transferred as premium for 2019 scheme buy-in	**(1,115)**	**–**	**–**	**(1,115)**
At 31 December	**54**	**(1,691)**	**–**	**(1,637)**

2018	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January	1,206	(1,622)	(147)	(563)
Interest income/(expense)	30	(40)	(3)	(13)
Administrative expenses	(4)	–	–	(4)
Past service costs	–	(23)	–	(23)
Included in profit or loss	26	(63)	(3)	(40)
Remeasurements:				
Return on plan assets excluding amounts included in interest income	(41)	–	–	(41)
Experience gain	–	17	–	17
Gain from changes in financial assumptions	–	62	–	62
Loss from changes in demographic assumptions	–	(3)	–	(3)
Change in provision for tax on economic surplus available as a refund	–	–	(1)	(1)
Included in other comprehensive income	(41)	76	(1)	34
Benefit payments	(81)	81	–	–
Income received from insurance policies	47	–	–	47
At 31 December	1,157	(1,528)	(151)	(522)

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.2 PGL Pension Scheme continued

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2019		2018	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Fixed interest gilts	–	–	291	–
Index-linked bonds	–	–	848	–
Swaps	–	–	5	5
Corporate Bonds	–	–	16	–
Cash and other	54	–	12	–
Obligations for repayment of stock lending collateral received	–	–	(24)	–
European Investment Bank Bonds	–	–	9	–
Reported scheme assets	54	–	1,157	5
Add back:				
Insurance policies eliminated on consolidation	1,687	1,687	877	877
Adjustment for amounts due to subsidiary eliminated on consolidation	(13)	–	–	–
Economic value of assets	**1,728**	**1,687**	2,034	882

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 36% (2018: 36%); and
- Pensioners: 64% (2018: 64%)

The weighted average duration of the defined benefit obligation at 31 December 2019 is 16 years (2018: 16 years).

Principal assumptions

The principal financial assumptions of the PGL Pension Scheme are set out in the table below:

	2019 %	2018 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	3.00	3.20
Rate of increase for deferred pensions ('CPI')	2.20	2.40
Discount rate	2.00	2.80
Inflation – RPI	3.00	3.20
Inflation – CPI	2.20	2.40

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the PGL Pension Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with 86%/94% of S1PL base tables with future longevity improvements from 1 January 2017 are based on modified CMI 2018 Core Projections (2018: CMI 2017 Core Projections) and a long-term rate of improvement of 1.60% (2018: 1.75%) per annum for males and 1.30% (2018: 1.50%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28.3 years (2018: 28.3 years) and 29.6 years (2018: 29.6 years) for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2019

Assumptions	**Base**	**Discount rate**		**RPI**		**Life expectancy**	
Sensitivity level		**25bps increase**	**25bps decrease**	**25bps increase**	**25bps decrease**	**1 year increase**	**1 year decrease**
Impact on the defined benefit obligation (£m)	**1,691**	**(65)**	**67**	**53**	**(51)**	**63**	**(63)**

2018

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,528	(59)	60	48	(51)	57	(57)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of consolidated financial position.

G1.3 Abbey Life Staff Pension Scheme

Scheme details

On 30 June 2017, the Abbey Life Scheme was transferred from Abbey Life to Pearl Life Holdings Limited ('PeLHL'), a fellow subsidiary. PeLHL assumed the scheme covenant together with all obligations of the scheme following implementation of the transfer. The Abbey Life Scheme is a registered occupational pension scheme, set up under Trust, and legally separate from the employer PeLHL. The scheme is administered by Abbey Life Trust Securities Limited (the Trustee), a corporate trustee. There are three Trustee Directors, one of whom is nominated by the Abbey Life Scheme members and two of whom are appointed by PeLHL. The Trustee is responsible for administering the scheme in accordance with the Trust Deed and rules and pensions laws and regulations. The Abbey Life Scheme is closed to new entrants. The last active member ceased employment with the Group during the year and consequently the Abbey Life Scheme no longer recognises a current service cost.

The valuation has been based on an assessment of the liabilities of the Abbey Life Scheme as at 31 December 2019 undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

Funding

The last funding valuation of the Abbey Life Scheme was carried out by a qualified actuary as at 31 March 2018 and showed a deficit of £98 million.

Prior to 19 November 2018, the following schedule of contributions was applicable from 1 July 2017 and PeLHL was required to pay 39.5% of gross pensionable earnings and the following amounts in respect of deficit contributions:

- a lump sum of £25 million into the Scheme settled on 31 July 2017;
- fixed monthly contributions of £400,000 payable up to 30 June 2026 and monthly contributions of £83,552 in respect of administration expenses which are payable up to 30 June 2028 and will increase annually in line with the Retail Prices Index assumption; and
- annual payments of £4 million into the 2016 Charged Account by 31 July each year, with the first payment being made on 31 July 2017, and the last payment due by 31 July 2025.

Following the completion of the triennial funding valuation a revised schedule of contributions was agreed effective from 19 November 2018, for PeLHL to pay the following amounts in respect of deficit contributions:

- fixed monthly contributions of £400,000 payable up to 30 June 2026;
- monthly contributions in respect of administration expenses of £85,640 payable up to 31 March 2019, then £100,000 payable up to 30 June 2028 increasing annually in line with the Retail Prices Index assumption; and
- annual payments of £4 million into the 2016 Charged Account by 31 July each year, with the next payment being made by 31 July 2019, and the last payment due by 31 July 2025.

The Charged Accounts are Escrow accounts which were created in 2010 to provide the Trustees with additional security in light of the funding deficit. The amounts held in the Charged Accounts do not form part of Abbey Life Scheme assets.

Under the terms of the 2013 Funding Agreement dated 28 June 2013, the funding position of the Abbey Life Scheme will be assessed as at 31 March 2021. A payment will be made from the 2013 Charged Account to the Abbey Life Scheme if the results of the assessment reveal a shortfall calculated in accordance with the terms of the 2013 Funding Agreement. The amount of the payment will be the lower of the amount of the shortfall and the amount held in the 2013 Charged Account.

Under the terms of the 2016 Funding Agreement dated 23 June 2016, the funding position of the Abbey Life Scheme will be assessed as at 31 March 2027. A payment will be made from the 2016 Charged Account to the Scheme if the results of the assessment reveal a shortfall calculated in accordance with the terms of the 2016 Funding Agreement. The amount of the payment will be the lower of the amount of the shortfall and the amount held in the 2016 Charged Account.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.3 Abbey Life Staff Pension Scheme continued

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2019	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	**233**	**(307)**	**(74)**
Interest income/(expense)	**6**	**(9)**	**(3)**
Administrative expenses	**(1)**	**–**	**(1)**
Included in profit or loss	**5**	**(9)**	**(4)**
Remeasurements:			
Return on plan assets excluding amounts included in interest income	**26**	**–**	**26**
Experience gain	**–**	**2**	**2**
Loss from changes in financial assumptions	**–**	**(33)**	**(33)**
Gain from changes in demographic assumptions	**–**	**2**	**2**
Included in other comprehensive income	**26**	**(29)**	**(3)**
Employer's contributions	**6**	**–**	**6**
Benefit payments	**(16)**	**16**	**–**
At 31 December	**254**	**(329)**	**(75)**

2018	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	251	(321)	(70)
Past service cost	–	(4)	(4)
Interest income/(expense)	6	(8)	(2)
Administrative expenses	(2)	–	(2)
Included in profit or loss	4	(12)	(8)
Remeasurements:			
Return on plan assets excluding amounts included in interest income	(13)	–	(13)
Experience loss	–	(5)	(5)
Gain from changes in financial assumptions	–	12	12
Gain from changes in demographic assumptions	–	4	4
Included in other comprehensive income	(13)	11	(2)
Employer's contributions	6	–	6
Benefit payments	(15)	15	–
At 31 December	233	(307)	(74)

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2019		2018	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Equities – UK	**–**	**–**	24	–
Diversified income fund	**105**	**–**	–	–
Fixed interest government bonds	**73**	**–**	84	–
Corporate bonds	**71**	**–**	148	–
Derivatives	**(10)**	**(10)**	(40)	(40)
Cash and cash equivalents	**15**	**–**	17	–
Pension scheme assets	**254**	**(10)**	233	(40)

Derivative values above include interest rate and inflation rate swaps and foreign exchange forward contracts. The Abbey Life Scheme has hedged its inflation risk through an inflation swap. It is currently exposed to interest rate risk to the extent that the holdings in bonds are mismatched to the scheme liabilities. The long-term intention is to fully hedge this risk through an interest rate swap. Further key risks that will remain are longevity and credit spread exposures.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the Abbey Life Scheme's members as follows:

- Deferred scheme members: 49% (2018: 49%); and
- Pensioners: 51% (2018: 51%)

The weighted average duration of the defined benefit obligation at 31 December 2019 is 17 years (2018: 17 years).

Principal assumptions

The principal financial assumptions of the Abbey Life Scheme are set out in the table below:

	2019 %	2018 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**2.90**	3.10
Rate of increase for deferred pensions ('CPI' subject to caps)	**2.20**	2.40
Discount rate	**2.00**	2.80
Inflation – RPI	**3.00**	3.20
Inflation – CPI	**2.20**	2.40

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Abbey Life Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from the actual mortality experience in recent years, performed as part of the actuarial funding valuation as at 31 March 2015, using the SAPS S2 'Light' tables for males and for females based on year of use. Future longevity improvements are based on amended CMI 2018 Core Projections (2018: CMI 2017 Core Projections) and a long-term rate of improvement of 1.60% (2018: 1.75%) per annum for males and 1.30% (2018: 1.50%) per annum for females. Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 25.7 years and 27.2 years for male and female members respectively (2018: 25.7 years and 27.2 years respectively).

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.3 Abbey Life Staff Pension Scheme continued

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2019

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		**25bps increase**	**25bps decrease**	**25bps increase**	**25bps decrease**	**1 year increase**	**1 year decrease**
Impact on the defined benefit obligation (£m)	**329**	**(13)**	**14**	**10**	**(9)**	**12**	**(12)**

2018

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	307	(12)	13	9	(9)	12	(11)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of consolidated financial position.

G2. Intangible Assets

Goodwill

Business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured on initial recognition at cost. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. It is tested for impairment annually or when there is evidence of possible impairment. Goodwill is not amortised. For impairment testing, goodwill is allocated to relevant cash generating units. Goodwill is impaired when the recoverable amount is less than the carrying value.

In certain acquisitions an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration is recognised in the consolidated income statement.

Acquired in-force business

Insurance and investment contracts with DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts is recognised as acquired in-force business. This acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

The value of acquired in-force business related to investment contracts without DPF is recognised at its fair value and is amortised on a diminishing balance basis.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

The acquired in-force business is allocated to relevant cash generating units for the purposes of impairment testing.

Customer relationships

The customer relationship intangible asset includes vesting pension premiums and is measured on initial recognition at cost. The cost of this intangible asset acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, the customer relationship intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses.

The intangible asset is amortised on a straight-line basis over its useful economic life and assessed for impairment whenever there is an indication that the recoverable amount of the intangible asset is less than its carrying value. The customer relationship intangible asset is allocated to relevant cash generating units for the purposes of impairment testing.

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

The present value of future profits ('PVFP') is determined in a manner consistent with the realistic measurement of insurance contract liabilities. The Group's accounting policy for PVFP is described in note F1.

Brands and other contractual arrangements

Brands and other contractual arrangements acquired in a business combination are recognised at fair value at the acquisition date, and measured on initial recognition at cost. Amortisation is calculated using the straight-line method to allocate the cost of brands and other contractual arrangements over their estimated useful lives. They are tested for impairment whenever there is evidence of possible impairment. For impairment testing, they are allocated to the relevant cash generating unit. Brands and other contractual arrangements are impaired when the recoverable amount is less than the carrying value.

2019	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Other intangibles: Present value of future profits £m	Other intangibles: Brands and other £m	Other intangibles: Total other intangibles £m	Total £m
Cost or valuation							
At 1 January	**57**	**5,197**	**297**	**12**	**56**	**365**	**5,619**
Revaluation	**–**	**–**	**–**	**70**	**–**	**70**	**70**
At 31 December	**57**	**5,197**	**297**	**82**	**56**	**435**	**5,689**
Amortisation and impairment							
At 1 January	**–**	**(1,164)**	**(139)**	**–**	**(5)**	**(144)**	**(1,308)**
Amortisation charge for the year	**–**	**(382)**	**(15)**	**–**	**(5)**	**(20)**	**(402)**
At 31 December	**–**	**(1,546)**	**(154)**	**–**	**(10)**	**(164)**	**(1,710)**
Carrying amount at 31 December	**57**	**3,651**	**143**	**82**	**46**	**271**	**3,979**
Amount recoverable after 12 months	**57**	**3,296**	**128**	**82**	**40**	**250**	**3,603**

2018	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Other intangibles: Present value of future profits £m	Other intangibles: Brands and other £m	Other intangibles: Total other intangibles £m	Total £m
Cost or valuation							
At 1 January	57	2,266	297	11	20	328	2,651
On acquisition of Standard Life Assurance businesses	–	2,931	–	–	36	36	2,967
Revaluation	–	–	–	1	–	1	1
At 31 December	57	5,197	297	12	56	365	5,619
Amortisation and impairment							
At 1 January	–	(968)	(124)	–	(2)	(126)	(1,094)
Amortisation charge for the year	–	(196)	(15)	–	(3)	(18)	(214)
At 31 December	–	(1,164)	(139)	–	(5)	(144)	(1,308)
Carrying amount at 31 December	57	4,033	158	12	51	221	4,311
Amount recoverable after 12 months	57	3,651	143	12	47	202	3,910

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G2. Intangible Assets continued

G2.1 Goodwill

The carrying value of goodwill has been tested for impairment at the year end. No impairment has been recognised because the value in use of this intangible continues to exceed its carrying value.

£47 million of goodwill is attributable to the Management Services segment including £8 million that arose on acquisition of Abbey Life. Value in use has been determined as the present value of certain future cash flows associated with this business. The cash flows used in this calculation have been valued using a risk adjusted discount rate of 8.3% (2018: 8.9%) and are consistent with those adopted by management in the Group's operating plan and, for the period 2025 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. The underlying assumptions of these projections include management's best estimates with regards to longevity, persistency, mortality and morbidity.

The remaining £10 million relates to the goodwill recognised on the acquisition of AXA Wealth during 2016 and has been allocated to the UK Open segment. This represents the value of the workforce assumed and the potential for future value creation, which relates to the ability to invest in and grow the SunLife brand. Value in use has been determined as the present value of certain future cashflows associated with that business. The cash flows used in the calculation are consistent with those adopted by management in the Group's operating plan, and for the period 2025 and beyond assume a zero growth rate. The underlying assumptions of these projections include market share, customer numbers, commission rates and expense inflation. The cashflows have been valued at a risk adjusted discount rate of 11% that makes prudent allowance for the risk that future cash flows may differ from that assumed.

Impairment tests have been performed using assumptions which management consider reasonable. Given the magnitude of the excess of the value in use over carrying value, management does not believe that a reasonably foreseeable change in key assumptions would cause the carrying value to exceed value in use.

G2.2 Acquired in-force business

Acquired in-force business on insurance contracts and investment contracts with DPF represents the difference between the fair value of the contractual rights under these contracts and the liability measured in accordance with the Group's accounting policies for such contracts. This intangible is being amortised in accordance with the run-off of the book of business.

Acquired in-force business on investment contracts without DPF is amortised in line with emergence of economic benefits.

Acquired in-force business of £2,931 million was recognised during 2018 upon acquisition of the Standard Life Assurance businesses (see note H2).

G2.3 Customer relationships

The customer relationships intangible at 31 December 2019 relates to vesting pension premiums which captures the new business arising from policies in-force at the acquisition date, specifically top-ups made to existing policies and annuities vested from matured pension policies.

The total value of this customer relationship intangible at acquisition was £297 million and has been allocated to the UK Heritage segment. This intangible is being amortised over a 20 year period, and had a remaining useful life as at 31 December 2019 of 9.9 years.

G2.4 Present value of future profits on non-participating business in the with-profit fund

The principal assumptions used to calculate the present value of future profits are the same as those used in calculating the insurance contract liabilities given in note F4.1. Revaluation of the present value of future profits is charged or credited to the consolidated income statement as appropriate.

G2.5 Other intangibles

Other intangibles include £20 million which was recognised at cost on acquisition of the AXA Wealth businesses and £36 million recognised at cost on acquisition of the Standard Life Assurance businesses.

The amount recognised in respect of AXA Wealth represents the value attributable to the SunLife brand as at 1 November 2016. The intangible asset was valued on a 'multi-period excess earnings' basis. Impairment testing was performed in a combined test with the AXA goodwill (see section G2.1). The value in use continues to exceed its carrying value.

This brand intangible is being amortised over a 10 year period.

The amount recognised in respect of the Standard Life Assurance businesses represents the value attributable to the Client Services and Proposition Agreement ('CSPA') with SLA plc and the Group's contractual rights to use the Standard Life brand. The CSPA formalises the Strategic Partnership between the two companies and establishes the contractual terms by which SLA plc will continue to market and distribute certain products that will be manufactured by Group companies.

This intangible was valued on a 'multi-period excess earnings' basis and is being amortised over a period of 15 years. The remaining useful life as at 31 December 2019 was 13.7 years.

G3. Property, Plant and Equipment

Owner-occupied property is stated at its revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. Owner-occupied property is depreciated over its estimated useful life, which is taken as 20-50 years. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of consolidated comprehensive income.

The right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairments, and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated over the remaining lease term which is between 1 and 11 years.

Equipment consists primarily of computer equipment and fittings. Equipment is stated at historical cost less deprecation. Where acquired in a business combination, historical cost equates to the fair value at the acquisition date. Depreciation on equipment is charged to the consolidated income statement over its estimated useful life of between 2 and 15 years.

2019	Owner-occupied properties £m	Right-of-use assets – property £m	Right-of-use assets – equipment £m	Equipment £m	Total £m
Cost or valuation					
At 1 January 2019	**31**	**–**	**–**	**19**	**50**
Transition to IFRS 16 (see note A6)	**–**	**75**	**2**	**–**	**77**
At 1 January 2019 restated	**31**	**75**	**2**	**19**	**127**
Additions	**2**	**–**	**–**	**8**	**10**
Disposals	**(1)**	**–**	**–**	**–**	**(1)**
Reclassification to investment property	**(7)**	**–**	**–**	**–**	**(7)**
At 31 December 2019	**25**	**75**	**2**	**27**	**129**
Depreciation					
At 1 January 2019	**–**	**–**	**–**	**(2)**	**(2)**
Depreciation	**–**	**(11)**	**–**	**(7)**	**(18)**
At 31 December 2019	**–**	**(11)**	**–**	**(9)**	**(20)**
Carrying amount at 31 December 2019	**25**	**64**	**2**	**18**	**109**

2018	Owner-occupied properties £m	Equipment £m	Total £m
Cost or valuation			
At 1 January 2018	26	–	26
On acquisition of Standard Life Assurance businesses	5	14	19
Additions	–	5	5
At 31 December 2018	31	19	50
Depreciation			
At 1 January 2018	–	–	–
Depreciation	–	(2)	(2)
At 31 December 2018	–	(2)	(2)
Carrying amount at 31 December 2018	31	17	48

Owner-occupied properties have been valued by accredited independent valuers at 31 December 2019 on an open market basis in accordance with the Royal Institution of Chartered Surveyors' requirements, which is deemed to equate to fair value. The fair value measurement for the properties of £25 million (2018: £31 million) has been categorised as Level 3 based on the non-observable inputs to the valuation technique used. Unrealised gains for the current and prior years are £nil.

The fair value of the owner-occupied properties was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuations are the expected rental values per square foot and the capitalisation rates.

The fair value of the owner-occupied properties valuation would increase (decrease) if the expected rental values per square foot were to be higher (lower) and the capitalisation rates were to be lower (higher).

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G4. Investment Property

Investment property, including right-of-use assets, is stated at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Gains and losses arising from the change in fair value are recognised in the consolidated income statement.

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where investment property is leased out by the Group, rental income from these operating leases is recognised as income in the consolidated income statement on a straight-line basis over the period of the lease.

	2019 £m	2018 £m
At 1 January	6,520	612
On acquisition of the Standard Life Assurance businesses	–	5,878
Additions	214	119
Improvements	5	3
Disposals	(722)	(74)
Reclassified from owner-occupied property	7	–
Remeasurement of right-of-use asset	(15)	–
Movement in foreign exchange	(11)	–
Losses on adjustments to fair value (recognised in consolidated income statement)	(55)	(18)
At 31 December	**5,943**	6,520
Unrealised losses on properties held at end of period	(124)	(28)

As at 31 December 2019, a property portfolio of £5,824 million (2018: £6,401 million) is held by the life companies in a mix of commercial sectors, spread geographically throughout the UK and Europe.

Investment properties also include £101 million (2018: £119 million) of property reversions arising from sales of the NPI Extra Income Plan (see note E5 for further details).

Certain investment properties held by the life companies possess a ground rent obligation which gives rise to both a right-of-use asset and a lease liability under IFRS 16. Under IAS 17, these leases were accounted for as finance leases. The right-of-use asset associated with the ground rent obligation is valued at fair value and is included within the total investment property valuation. The IAS 17 value of the ground rent right-of-use asset on the date of transition to IFRS 16 totalled £80 million (see note A6 for further details) and the remeasurement of this balance gives rise to a reduction of £15 million. There were disposals of right-of-use assets of £47 million. The value of the ground rent right-of-use asset as at 31 December 2019 was £18 million.

Commercial investment property is measured at fair value by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ('RICS') guidelines with expected income and capitalisation rate as the key non-observable inputs.

The residential property reversions, an interest in customers' properties which the Group will realise upon their death, are valued using a DCF model based on the Group's proportion of the current open market value, and discounted for the expected lifetime of the policyholder derived from published mortality tables. The open market value is measured by independent local property surveyors having appropriate recognised professional qualifications with reference to the assumed condition of the property and local market conditions. The individual properties are valued triennially and indexed using regional house price indices to the year end date. The discount rate is a risk-free rate appropriate for the duration of the asset, adjusted for the deferred possession rate of 3.6%. Assumptions are also made in the valuation for future movements in property prices, based on a risk free rate. The residential property reversions have been substantially refinanced under the arrangements with Santander as described in note E5.

The fair value measurement of the investment properties has been categorised as Level 3 based on the inputs to the valuation techniques used. The following table shows the valuation techniques used in measuring the fair value of the investment properties, the significant non-observable inputs used, the inter-relationship between the key non-observable inputs and the fair value measurement of the investment properties:

Description	Valuation techniques	Significant non-observable inputs	Weighted average 2019	Weighted average 2018
Commercial Investment Property	RICS valuation	Expected income per sq. ft.	£25.46	£28.88
		Estimated rental value per hotel room	£8,298	£8,948
		Estimated rental value per parking space	£1,170	£1,170
		Capitalisation rate	5.15%	5.10%

The estimated fair value of commercial properties would increase (decrease) if:

- the expected income were to be higher (lower); or
- the capitalisation rate were to be lower (higher).

The estimated fair value of the residential property reversions would increase (decrease) if:

- the deferred possession rate were to be lower (higher);
- the mortality rate were to be higher (lower).

Direct operating expenses (offset against rental income in the consolidated income statement) in respect of investment properties that generated rental income during the year amounted to £22 million (2018: £11 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £1 million (2018: £2 million).

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2019 £m	2018 £m
Not later than 1 year	259	262
Later than 1 year and not later than 5 years	850	884
Later than 5 years	2,654	2,815

G5. Other Receivables

Other receivables are recognised when due and measured on initial recognition at the fair value of the amount receivable. Subsequent to initial recognition, these receivables are measured at amortised cost using the effective interest rate method.

	2019 £m	2018 £m
Investment broker balances	167	176
Cash collateral pledged	380	339
Reimbursement assets (note G7)	15	22
Property related receivables	99	110
Deferred acquisition costs	34	21
Other debtors	538	379
	1,233	1,047
Amount recoverable after 12 months	20	8

G6. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are deducted from cash and cash equivalents for the purpose of the statement of consolidated cash flows.

	2019 £m	2018 £m
Bank and cash balances	2,706	1,673
Short-term deposits (including notice accounts and term deposits)	1,760	3,253
	4,466	4,926

Deposits are subject to a combination of fixed and variable interest rates. The carrying amounts approximate to fair value at the period end. Cash and cash equivalents in long-term business operations and consolidated collective investment schemes of £4,201 million (2018: £4,572 million) are primarily held for the benefit of policyholders and so are not generally available for use by the owners.

G7. Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision is recognised for onerous contracts when the expected benefits to be derived from the contracts are less than the related unavoidable costs. The unavoidable costs reflect the net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Where it is expected that a part of the expenditure required to settle a provision will be reimbursed by a third party the reimbursement is recognised when, and only when, it is virtually certain that the reimbursement will be received. This reimbursement shall be recognised as a separate asset within other receivables and will not exceed the amount of the provision.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G7. Provisions continued

2019	Leasehold properties £m	Staff related £m	Known incidents £m	PA(GI) provision £m	FCA thematic reviews provision £m	Restructuring provisions: Transition and Transformation provision £m	Restructuring provisions: AXA provision £m	Restructuring provisions: Transfer of policy administration provision £m	Other £m	Total £m
At 1 January	5	15	33	17	208	–	4	73	22	377
Additions in the year	–	1	19	11	36	159	–	–	26	252
Utilised during the year	(1)	–	(9)	(21)	(145)	–	(4)	(14)	(11)	(205)
Released during the year	–	–	(1)	–	(93)	–	–	–	(2)	(96)
At 31 December	4	16	42	7	6	159	–	59	35	328

Leasehold properties
The leasehold properties provision includes a £3 million (2018: £3 million) dilapidations provision in respect of obligations under operating leases and £1 million (2018: £2 million) in respect of the excess of lease rentals and other payments on properties that are currently vacant or are expected to become vacant, over the amounts to be recovered from subletting these properties.

Staff related
Staff related provisions include provisions for unfunded pensions of £13 million (2018: £12 million), private medical and other insurance costs for former employees of £3 million (2018: £3 million).

Known incidents
The known incidents provision was created for historical data quality, administration systems problems and process deficiencies on the policy administration, financial reconciliations and operational finance aspects of business outsourced.

On acquisition of the Standard Life Assurance businesses on 31 August 2018, obligations arising as a result of the areas described above were recognised at £37 million on a fair value basis. Additional incidents were identified during the year and the provision was increased by £19 million. The balance at 31 December 2019 is £42 million.

PA(GI) provision
In 2015, PA(GI) Limited, a subsidiary of the Group, was subject to a Companies Court judgement that directed that PA(GI) is liable to claimants for redress relating to creditor insurance policies within a book of insurance underwritten by PA(GI) until 2006. As a consequence, PA(GI) is liable for complaint handling and redress with regard to the complaints.

The PA(GI) provision of £7 million (2018: £17 million) represents the Group's best estimate of the likely future costs. The FCA deadline of 29 August 2019 for submission of complaints has now passed and consequently no new claims are expected. Following the passing of the FCA deadline the level of uncertainty with respect to the remaining exposure has reduced. At 31 December 2019, a reimbursement asset of £15 million (2018: £8 million) has been recognised in other receivables in connection with the Group's exposure to these complaints. This represents recoveries due from third parties under contractual arrangements. Recoveries of £10 million (2018: £18 million) have been received during the year.

FCA thematic reviews provision – Abbey Life
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 completion of the review, Abbey Life was subject to additional investigations. Specifically, the FCA explored whether remedial and/or disciplinary action was necessary or appropriate in respect of exit or paid-up charges being applied. Additionally, Abbey Life was investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review. On 14 December 2018 the Group was informed by the FCA that it had closed its investigation into Abbey Life, having found that the conduct of Abbey Life did not warrant enforcement action. Accordingly the remaining provision was released in 2018.

In addition, 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 relating to significant communications that took place orally, usually on the telephone. The FCA also identified other areas of possible concern, including in relation to the recording and maintenance of records of calls. The FCA encouraged all firms to consider its feedback and take appropriate action to address the points raised. The Group has recognised provisions in respect of its best estimate of the likely costs associated with its obligations in this regard and the opening provision of £27 million was increased by £5 million during 2019. During the year, £18 million was utilised and the balance of the provision was released.

Under the terms of the Abbey Life acquisition, Deutsche Bank provided Phoenix Life Holdings Limited ('PLHL') with an indemnity, with a duration of up to eight years, in respect of exposures that may arise in Abbey Life as a result of the FCA's final thematic review findings. The indemnity was subject to a limit of £175 million and applied to all regulatory fines and to 80%-90% of the costs of customer remediation. Reflecting the status of the review and remediation processes, agreement was reached with Deutsche Bank during 2019 to close out this indemnity and a payment was received to reflect this closure. Recoveries of £15 million (2018: £9 million) have been received during the year and the reimbursement asset recognised in other receivables was £nil (2018: £14million).

FCA thematic reviews provision – SLAL

Standard Life Assurance Limited was also a participant in the thematic review of non-advised annuity sales issued by the FCA on 14 October 2016. On acquisition of the Standard Life Assurance businesses on 31 August 2018, obligations arising as a result of past practices in the area described above were assessed. As a result, it was determined appropriate to recognise a provision of £225 million in respect of SLAL on a fair value basis. The provision recognised the estimated costs associated with redress payable to customers, the costs of the review and other expenses. It did not make allowance for any financial penalties that may arise as a result of the completion of the FCA investigation as it was not possible to determine a reliable estimate in this regard.

The FCA's review has now completed and SLAL received a final notice in July 2019 which imposed a financial penalty on the entity of £31 million. SLAL agreed to settle in accordance with the final notice and accordingly a provision of that amount was recognised. As at 31 December 2019, the amount has been settled.

During the period, in addition to the payment of the £31 million noted above, £96 million has been utilised, £79 million has been released, and £6 million remains as at 31 December 2019.

Under the terms of the Standard Life Assurance acquisition, SLA plc provided the Company with 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 FCA-mandated, and SLA plc's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices. 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. During the period recoveries of £31 million were received from SLA plc in respect of the financial penalty referred to above.

To the extent that total costs are less than £225 million, Old PGH is required to pay the balance to SLA plc, together with any interest that may have accrued on such sum, and subject to recovery of any lost tax relief on the £225 million. In light of the release from the thematic review provision in the year, a liability of £64 million has been recognised within other payables at 31 December 2019 to reflect obligations to SLA plc in this regard.

Restructuring provisions

AXA restructuring provision

Following the acquisition of AXA Wealth in 2016, the Group commenced the restructuring of these businesses to align their operating model with that of the other Group companies. These activities involved separation and integration activities associated with the exiting of interim services agreements entered into with the vendor, and costs involved with implementing the Group's preferred outsourcer model. A provision of £30 million was recognised in 2016, of which £4 million remained at the start of the 2019. This provision was fully utilised in the year.

Transfer of policy administration

A significant proportion of the Group's policy administration is outsourced to Diligenta Limited ('Diligenta'), a UK-based subsidiary of Tata Consultancy Services ('TCS'). Diligenta provide life and pension business process services to a large number of the Group's policyholders. During 2018, the Group announced its intention to move to a single outsourcer platform and as a result a further 2 million of the Group's legacy policies will be transferred to Diligenta by 31 December 2021.

A provision of £76 million was recognised in 2018 for the expected cost of the platform migration. During the year £14 million of this balance was utilised and the remaining £59 million is expected to be utilised within two years.

Transition and Transformation provision

Following the acquisition of the Standard Life Assurance businesses in August 2018, the Group established a transition and transformation programme which aims to deliver the integration of the Group's operating models via a series of phases. During the year, the Group announced its intention to extend its strategic partnership with TCS to provide customer servicing, to develop a digital platform and for migration of existing Standard Life policies to this platform by 2022 which raised a valid expectation of the impacts in those likely to be affected. It is envisaged that £159 million of costs will be incurred over a three year period and will include migration costs, severance costs and other expenses. Migration costs payable to TCS are subject to limited uncertainty as they are fixed under the terms of the agreement entered into. The severance costs are subject to uncertainty and will be impacted by the number of staff that transfer to TCS, and the average salaries and number of years' service of those affected.

Other provisions

Other provisions comprises a number of items including litigation and onerous contract provisions, obligations arising under a gift voucher scheme operated by the SunLife business and a commission clawback provision which represents the expected future clawback of commission income earned by the SunLife business as a result of assumed lapses of policies or associated benefits.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G8. Tax Assets and Liabilities

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

	2019 £m	2018 £m
Current tax:		
Current tax receivable	75	145
Current tax payable	–	(20)
Deferred tax:		
Deferred tax liabilities	(873)	(843)

Movement in deferred tax assets/(liabilities)

2019	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	31 December £m
Trading losses	13	1	–	14
Expenses and deferred acquisition costs carried forward	50	(30)	–	20
Provisions and other temporary differences	9	23	–	32
Non refundable pension scheme surplus	(13)	2	(57)	(68)
Committed future pension contributions	18	(6)	–	12
Pension scheme deficit	13	–	1	14
Accelerated capital allowances	7	1	–	8
Intangibles	–	40	–	40
Acquired in-force business	(810)	119	–	(691)
Customer relationships	(37)	4	–	(33)
Unrealised gains	(60)	(139)	–	(199)
IFRS transitional adjustments	(32)	8	–	(24)
Other	(1)	3	–	2
	(843)	26	(56)	(873)

2018	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Acquisition of Standard Life Assurance businesses £m	31 December £m
Trading losses	48	(36)	–	1	13
Expenses and deferred acquisition costs carried forward	24	20	–	6	50
Provisions and other temporary differences	8	3	(2)	–	9
Non refundable pension scheme surplus	(13)	3	(3)	–	(13)
Committed future pension contributions	25	(2)	(5)	–	18
Pension scheme deficit	12	1	–	–	13
Accelerated capital allowances	9	(2)	–	–	7
Unpaid interest	16	(16)	–	–	–
Acquired in-force business	(341)	33	–	(502)	(810)
Customer relationships	(33)	3	–	(7)	(37)
Unrealised gains	(81)	188	–	(167)	(60)
IFRS transitional adjustments	(40)	8	–	–	(32)
Other	–	(3)	–	2	(1)
	(366)	200	(10)	(667)	(843)

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 consolidated financial statements.

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	2019 £m	2018 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	**30**	53
Intangibles	**13**	–
Deferred tax assets not recognised on capital losses[1]	**2**	21

1 These can only be recognised against future capital gains and have no expiry date.

On 31 January 2020, the UK formally left the EU. There is some uncertainty about how the existing tax legislation will evolve following the UK's exit. No changes are required to the measurement of tax in these financial consolidated statements but this will be monitored and reassessed at each reporting period.

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

The Supreme Court concluded in favour of the tax payer in July 2018 and a tax benefit of £13 million was recognised at the end of 2018 in relation to enhanced double tax relief claims which the Group is entitled to in accordance with the Court judgement. The tax refund is for the benefit of Group with-profits funds (total c£11 million) and unit linked life funds (£2 million). In the case of the with-profits funds there was an increase in unallocated surplus and for the unit linked life funds there is a corresponding increase in investment contract liabilities as a result of the recognition of the tax asset.

HMRC issued a communication to taxpayers who are affected by the dividend GLO but not direct participants of it, in January 2020, setting out HMRC's intended approach to settling enquiries into the amount of double tax relief available for statutory protective or other claims. In view of the large number of cases involved HMRC are currently unable to offer a specific date by which HMRC will be able to deal with the various claims outstanding.

Some companies of the Group were late joiners or not members of the GLO but have made statutory protective tax claims totalling c£14 million for the benefit of unit linked life funds based on the Supreme Court decision. HMRC has challenged the validity of such claims and is currently considering further tax litigation in this area against other third parties. Due to the uncertainty around the potential success of the claims a tax asset has not been recognised in respect of these claims.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G9. Payables Related to Direct Insurance Contracts

Payables related to direct insurance contracts primarily include outstanding claims provisions. Outstanding claims under insurance and investment contracts with DPF are valued using a best estimate method under IFRS 4 '*Insurance Contracts*'. Outstanding claims under investment contracts without DPF are measured at full settlement value in accordance with IAS 39 *'Financial Instruments'*: Recognition and Measurement.

	2019 £m	2018 £m
Payables related to direct insurance contracts	**890**	902
Amount due for settlement after 12 months	**–**	–

G10. Lease Liabilities

The operating lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate as the interest rate implicit in the lease cannot be readily determined. For leases classified as finance leases, the incremental borrowing rate of investment funds holding the associated investment properties is used as discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from, for example, rent reviews or from changes in the assessment of whether a termination option is reasonably certain not to be exercised. The Group has applied judgement to determine the lease term for some lease contracts with break clauses.

	£m
As at 1 January 2019 restated (see note A6)	**158**
Termination of finance leases following the disposal of associated investment properties	**(47)**
Interest expense	**3**
Lease payments	**(15)**
Remeasurement of finance leases under IFRS 16	**(15)**
As at 31 December 2019	**84**
Amount due within twelve months	**11**
Amount due after twelve months	**73**

The Group has elected not to apply the measurement requirements of IFRS 16 to its low value leases and as such costs of these leases are recognised on a straight-line basis as expense within administrative expenses. The expense for the year was £1 million.

The Group adopted IFRS 16 effective from 1 January 2019 and as noted in note A6 has applied the standard using the modified retrospective approach. As a result, the comparative information for 2018 has not been restated and continues to be reported under IAS 17. The following disclosures are in respect of the operating leases previously reported in the 2018 consolidated financial statements.

In 2018, leases where a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Where the Group is the lessee, payments made under operating leases, net of any incentives received from the lessor were charged to the consolidated income statement on a straight-line basis over the period of the lease.

Operating lease rentals charged within administrative expenses in 2018 amounted to £10 million.

The Group had commitments under non-cancellable operating leases as set out below.

	2018 restated[1] £m
Not later than 1 year	12
Later than 1 year and not later than 5 years	31
Later than five years	40

1 The disclosures have been restated to reflect the adjustments made to the 2018 operating lease commitments as discussed in note A6.

G11. Accruals and Deferred Income

This note analyses the Group's accruals and deferred income at the end of the year.

	2019 £m	2018 £m
Accruals and deferred income	**384**	337
Amount due for settlement after 12 months	**9**	9

G12. Other Payables

Other payables are recognised when due and are measured on initial recognition at the fair value of the consideration payable. Subsequent to initial recognition, these payables are measured at amortised cost using the effective interest rate method.

	2019 £m	2018 £m
Investment broker balances	**616**	199
Property related payables	**35**	117
Investment management fees	**8**	39
Amount due to SLA plc on deed of indemnity (see note G7)	**64**	–
Other payables	**320**	518
	1,043	873
Amount due for settlement after 12 months	**42**	97

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES

H1. Subsidiaries

Subsidiaries are consolidated from the date that effective control is obtained by the Group (see basis of consolidation in note A1) and are excluded from consolidation from the date they cease to be subsidiary undertakings. For subsidiaries disposed of during the year, any difference between the net proceeds, plus the fair value of any retained interest, and the carrying amount of the subsidiary including non-controlling interests, is recognised in the consolidated income statement.

The Group uses the acquisition method to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired is recognised as goodwill. In certain acquisitions an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration is recognised in the consolidated income statement.

Directly attributable acquisition costs are included within administrative expenses, except for acquisitions undertaken prior to 2010 when they are included within the cost of the acquisition. Costs directly related to the issuing of debt or equity securities are included within the initial carrying amount of debt or equity securities where these are not carried at fair value. Intra-group balances and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The Group has invested in a number of collective investment schemes such as Open-ended Investments Companies ('OEICs'), unit trusts, Société d'Investissement à Capital Variable ('SICAVs'), investment trusts and private equity funds. These invest mainly in equities, bonds, property and cash and cash equivalents. The Group's percentage ownership in these collective investment schemes can fluctuate according to the level of Group and third party participation in the structures.

When assessing control over collective investment schemes, the Group considers those factors described under the 'Basis of consolidation' in note A1. In particular, the Group considers the scope of its decision-making authority, including the existence of substantive rights (such as power of veto, liquidation rights and the right to remove the fund manager) that give it the ability to direct the relevant activities of the investee. The assessment of whether rights are substantive rights, and the circumstances under which the Group has the practical ability to exercise them, requires the exercise of judgement. This assessment includes a qualitative consideration of the rights held by the Group that are attached to its holdings in the collective investment schemes, rights that arise from contractual arrangements between the Group and the entity or fund manager and the rights held by third parties. In addition, consideration is made of whether the Group has de facto power, for example, where third party investments in the collective investment schemes are widely dispersed.

Where Group companies are deemed to control such collective investment schemes they are consolidated in the Group financial statements, with the interests of external third parties recognised as a liability (see the accounting policy for 'Net asset value attributable to unitholders' in note E1 for further details).

Certain of the collective investment schemes have non-coterminous period ends and are consolidated on the basis of additional financial statements prepared to the period end.

H1.1 Significant restrictions

The ability of subsidiaries to transfer funds to the Group in the form of cash dividends or to repay loans and advances is subject to local laws, regulations and solvency requirements.

Each UK Life company and the Group must retain sufficient capital at all times to meet the regulatory capital requirements mandated by or otherwise agreed with the PRA. Further information on the capital requirements applicable to Group entities are set out in the Capital Management note (I3). Under UK company law, dividends can only be paid if a UK company has distributable reserves sufficient to cover the dividend.

In addition, contractual requirements may place restrictions on the transfer of funds as follows:

- the Pearl Pension Scheme funding agreement includes certain covenants which restrict the transfer of funds within the Group. Details are provided in note G1.1.
- Pearl Life Holdings Limited ('PeLHL') is required to make payments of contributions into charged accounts on behalf of the Abbey Life Scheme. These amounts do not form part of the pension scheme assets and at 31 December 2019, PeLHL held £49 million (2018: £46 million) within debt securities and £7 million (2018: £1 million) within cash and cash equivalents in respect of these charged accounts. Further details of when these amounts may become payable to the pensions scheme are included in note G1.3.

H2. Acquisition of Standard Life Assurance Businesses

On 31 August 2018, the Group acquired 100% of the issued share capital 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') from SLA plc for total consideration of £2,994 million. 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. 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.

The fair values of the identifiable assets acquired, liabilities assumed and the resultant gain arising on acquisition of £141 million determined at the date of acquisition have not been adjusted within the 12 month period since the date of acquisition.

H3. Associates: Investment in UK Commercial Property Trust Limited ('UKCPT')

UKCPT is a property investment company which is domiciled in Guernsey and is admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange.

The Group's interest in UKCPT is held in the with-profit funds of the Group's life companies. Therefore, the shareholder exposure to fair value movements in the Group's investment in UKCPT is limited to the impact of those movements on the shareholder share of distributed profits of the relevant fund.

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H3. Associates: Investment in UK Commercial Property Trust Limited ('UKCPT') continued

As at 31 December 2019, the Group held 44.6% (2018: 44.7%) of the issued share capital of UKCPT and the value of this investment, measured at fair value, was £513 million (2018: £496 million). Management has concluded that the Group did not control UKCPT in either the current or comparative periods. The Group does not hold a unilateral power of veto in general meetings and is restricted by the terms of an existing relationship agreement it has with UKCPT.

Summary financial information (at 100%) for UKCPT is shown below:

	2019 £m	2018 £m
Non-current assets	1,309	1,431
Current assets	128	67
Non-current liabilities	(247)	(249)
Current liabilities	(23)	(36)
	1,167	1,213
Revenue	29	85
Profit before tax	2	59
Taxation	–	(6)
Profit for the year after tax	2	53

H4. Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group has determined that all of its investments in collective investment schemes are structured entities. In addition, a number of debt security structures and private equity funds have been identified as structured entities. The Group has assessed that it has interests in both consolidated and unconsolidated structured entities as shown below:

- Unit trusts;
- OEICs;
- SICAVs;
- Private Equity Funds;
- Asset backed securities;
- Collateralised Debt Obligations ('CDOs');
- Other debt structures; and
- Phoenix Group EBT.

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

H4.1 Interests in consolidated structured entities

The Group has determined that where it has control over funds, these investments are consolidated structured entities.

The EBT is a consolidated structured entity that holds shares to satisfy awards granted to employees under the Group's share-based payment schemes.

During the year, the Group granted further loans to the EBT of £4 million (2018: £8 million). Further loans are expected to be granted in 2020.

As at the reporting date the Group has no intention to provide financial or other support in relation to any other consolidated structured entity.

H4.2 Interests in unconsolidated structured entities

The Group has interests in unconsolidated structured entities. These investments are held as financial assets in the Group's consolidated statement of financial position held at fair value through profit or loss. Any change in fair value is included in the consolidated income statement in 'net investment income'. Dividend and interest income is received from these investments.

A summary of the Group's interest in unconsolidated structured entities is included below. These are shown according to the financial asset categorisation in the consolidated statement of financial position.

	2019 Carrying value of financial assets £m	2018 restated Carrying value of financial assets £m
Equities	528	463
Collective investment schemes[1]	69,415	67,692
Debt securities[2]	3,975	3,864
	73,918	72,019

1 See note A1 for details of the restatement.

2 The Group's interests in unconsolidated structured entities within debt securities in 2018 has been restated following a re-assessment of the nature of the Group's interests in certain investment structures.

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are largely less than 50% and as such the size of these structured entities are likely to be significantly higher than their carrying value.

Details of commitments to subscribe to private equity funds and other unlisted assets are included in note I5.

H5. Group Entities

The table below sets out the Group's subsidiaries (including collective investment schemes that have been consolidated within the Group's financial statements), associates and significant holdings in undertakings (including undertakings where holding amounts to 20% or more of the nominal value of the shares or units and they are not classified as a subsidiary or associate).

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Subsidiaries:				
Phoenix Life Limited (life assurance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Life Assurance Limited (life assurance company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Assurance Limited (life assurance company – directly owned by the Company)	Edinburgh[26]		Ordinary Shares	100.00%
Standard Life International Designated Activity Company (life assurance company – directly owned by the Company)	Dublin[6]		Ordinary Shares	100.00%
Standard Life Pension Funds Limited (life assurance company)	Edinburgh[26]		Limited by Guarantee	100.00%
Pearl Group Management Services Limited (management services company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Group Services Limited (management services company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Assets and Employee Services Limited (management services company)	Edinburgh[26]		Ordinary Shares	100.00%
Britannic Finance Limited (finance and insurance services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Pearl Customer Care Limited (financial services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Pearl Group Holdings (No. 1) Limited (finance company)	London[3]		Ordinary Shares	100.00%
Phoenix Customer Care Limited (financial services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER1 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
PGH (LC1) Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
PGH (LC2) Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
PGH (LCA) Limited (finance company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH (LCB) Limited (finance company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH (MC1) Limited (finance company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH (MC2) Limited (finance company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH Capital plc (finance company – directly owned by the Company)	Dublin[8]		Ordinary Shares	100.00%
PGMS (Ireland) Limited (management services company)	Dublin[7]		Ordinary Shares	100.00%
Phoenix ER3 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER4 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER6 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SL Direct Limited (management services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix Unit Trust Managers Limited (unit trust manager)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Wealth Services Limited (management services company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Wealth Trustee Services Limited (management services company)	Wythall[2]		Ordinary Shares	100.00%
SLACOM (No. 8) Limited (loan provider company)	Edinburgh[26]		Ordinary Shares	100.00%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued
H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Standard Life Lifetime Mortgages Limited (mortgage provider company)	Edinburgh[26]		Ordinary Shares	100.00%
The Standard Life Assurance Company of Europe B.V. (financial holding company)	Amsterdam[10]		Ordinary Shares	100.00%
Vebnet Limited (services company)	Wythall[2]		Ordinary Shares	100.00%
Mutual Securitisation plc (finance company)	Dublin[27]		N/A	100.00%
Britannic Money Investment Services Limited (investment advice company)[1]	Wythall[2]		Ordinary Shares	100.00%
Inesia SA (investment company)	Luxembourg[20]		Ordinary Shares	100.00%
Axial Fundamental Strategies (US Investments) LLC	Wilmington[18]		Limited Liability Company	100.00%
IH (Jersey) Limited (investment company)	Jersey[15]		Ordinary Shares	100.00%
Pearl (WP) Investments LLC (investment company)	Wilmington[18]		Limited Liability Company	100.00%
Pearl Assurance Group Holdings Limited (investment company)	Wythall[2]		Ordinary Shares	100.00%
PGMS (Glasgow) Limited (investment company)[1]	Edinburgh[26]		Ordinary Shares	100.00%
PGS 2 Limited (investment company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SCP Limited (investment company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV1 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV2 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV3 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV4 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Standard Life Private Equity Trust plc (investment company)	Edinburgh[25]		Ordinary Shares	55.20%
CH Management Limited (investment company)	Delaware[19]		Ordinary Shares	100.00%
3 St Andrew Square Apartments Limited (property management company)	Edinburgh[25]		Ordinary Shares	100.00%
Abbey Life Assurance Company Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
Abbey Life Trust Securities Limited (pension trustee company)	Wythall[2]		Ordinary Shares	100.00%
Abbey Life Trustee Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Alba LAS Pensions Management Limited (dormant company)	Glasgow[11]		Ordinary Shares	100.00%
Alba Life Trustees Limited (non-trading company)	Edinburgh[26]		Ordinary Shares	100.00%
BA (FURBS) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Britannic Group Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Century Trustee Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Cityfourinc (dormant company)	Wythall[2]		Unlimited with Shares	100.00%
Evergreen Trustee Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
G Park Management Company Limited (property management company)	London[17]		Ordinary Shares	100.00%
Gallions Reach Shopping Park (Nominee) Limited (dormant company)	London[17]		Ordinary Shares	100.00%
Iceni Nominees (No. 2) Limited (dormant company)	London[17]		Ordinary Shares	100.00%
Impala Holdings Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
Impala Loan Company 1 Limited (dormant company)[1]	Edinburgh[26]		Ordinary Shares	100.00%
Inhoco 3107 Limited (dormant company)	London[17]		Ordinary Shares	100.00%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Lake Meadows Management Company Limited (property management company)	London[17]		Ordinary Shares	100.00%
London Life Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
London Life Trustees Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
National Provident Institution (dormant company)	Wythall[2]		Unlimited without Shares	100.00%
National Provident Life Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
NP Life Holdings Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
NPI (Printworks) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
NPI (Westgate) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PA (GI) Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Barwell 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Chiswick House) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Covent Garden) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Martineau Phase 1) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Martineau Phase 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Moor House 1) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Moor House 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Moor House) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
Pearl (Printworks) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Stockley Park) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl AL Limited (dormant company)	Glasgow[11]		Ordinary Shares	100.00%
Pearl Group Holdings (No. 2) Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Group Secretariat Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Life Holdings Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
Pearl MG Birmingham Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl MP Birmingham Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl RLG Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Trustees Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl ULA Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Group Capital Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 4) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 5) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 6) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No. 7) Limited (dormant company)	London[3]		Ordinary Shares	100.00%
PGH (TC1) Limited (holding company – directly owned by the Company)	Wythall[2]		Ordinary Shares	100.00%
PGH (TC2) Limited (holding company – directly owned by the Company)	Wythall[2]		Ordinary Shares	100.00%
PGMS (Ireland) Holdings Unlimited Company (holding company)	Dublin[7]		Unlimited with Shares	100.00%
Phoenix & London Assurance Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix AW Limited (non-trading company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER2 Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER5 Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Group Holdings (holding company – directly owned by the Company)	Cayman Islands[5]		Private Company	100.00%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued
H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Phoenix Life Holdings Limited (holding company – directly owned by the Company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Life Pension Trust Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Pension Scheme (Trustees) Limited	Wythall[2]		Ordinary Shares	100.00%
Phoenix Pensions Trustee Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SCP Pensions Trustees Limited (trustee company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SCP Trustees Limited (trustee company)	Edinburgh[26]		Ordinary Shares	100.00%
Phoenix Wealth Holdings Limited (holding company)[1]	Wythall[2]		Ordinary Shares	100.00%
Scottish Mutual Assurance Limited (dormant company)[1]	Edinburgh[26]		Ordinary Shares	100.00%
Scottish Mutual Nominees Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
Scottish Mutual Pension Funds Investment Limited (trustee company)	Edinburgh[26]		Ordinary Shares	100.00%
SL (NEWCO) Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
SL Liverpool plc (dormant company)	Wythall[2]		Public Limited Company	100.00%
SLA Belgium No.1 SA (property company)	Belgium[4]		Société Anonyme	100.00%
SLA Netherlands No.1 B.V. (financial holding company)	Amsterdam[10]		Ordinary Shares	100.00%
SLACOM (No. 10) Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
SLACOM (No. 9) Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
SLIF Property Investment GP Limited (General Partner to SLIF Property Investment)	Edinburgh[25]		Ordinary Shares	100.00%
SLIF Property Investment LP Limited (General Partner to SLIF Property Investment)	Edinburgh[25]		Limited partnership	100.00%
Standard Life Agency Services Limited (dormant)	Edinburgh[26]		Ordinary Shares	100.00%
Standard Life Investment Funds Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
Standard Life Master Trust Co. Ltd (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Property Company Limited (dormant)	Edinburgh[26]		Ordinary Shares	100.00%
Standard Life Trustee Company Limited (trustee company)	Edinburgh[26]		Ordinary Shares	100.00%
SunLife Limited (financial services distribution company)	Wythall[2]		Ordinary Shares	100.00%
The Heritable Securities and Mortgage Investment Association Ltd (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
The London Life Association Limited (dormant company)	Wythall[2]		Limited by Guarantee	100.00%
The Pearl Martineau Galleries Limited Partnership (dormant company)	Wythall[2]		Limited Partnership	100.00%
The Pearl Martineau Limited Partnership (dormant company)	Lynch Wood[21]		Limited Partnership	100.00%
The Phoenix Life SCP Institution (dormant company)	Edinburgh[26]		Limited by Guarantee	100.00%
The Scottish Mutual Assurance Society (dormant company)	Glasgow[11]		Limited by Guarantee	100.00%
Vebnet (Holdings) Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Welbrent Property Investment Company Limited (dormant company)	London[17]		Ordinary Shares	100.00%
Pearl Private Equity LP	Edinburgh[25]		Limited Partnership	100.00%
Pearl Strategic Credit LP	Edinburgh[25]		Limited Partnership	100.00%
European Strategic Partners LP	Edinburgh[25]		Limited Partnership	72.70%
Pilangen Logistik AB	Stockholm[22]		Ordinary Shares	100.00%
Pilangen Logistik I AB	Stockholm[22]		Ordinary Shares	100.00%
SLA Germany No.1 S.A.R.L	Luxembourg[24]		Ordinary Shares	100.00%
SLA Germany No.2 S.A.R.L	Luxembourg[24]		Ordinary Shares	100.00%
SLA Germany No.3 S.A.R.L	Luxembourg[24]		Ordinary Shares	100.00%
SLA Ireland No.1 S.A.R.L	Luxembourg[24]		Ordinary Shares	100.00%
Standard Life Assurance (HWPF) Luxembourg SARL	Luxembourg[24]		Ordinary Shares	100.00%
Phoenix Group Employee Benefit Trust	Jersey[16]		Trust	100.00%
28 Ribera del Loira SA (dormant company)	Madrid[36]		Ordinary Shares	100.00%
330 Avenida de Aragon SL (property management company)	Madrid[36]		Ordinary Shares	100.00%
Hundred S.à r.l. (property management company)	Luxembourg[24]		Ordinary Shares	100.00%
Janus Henderson Institutional Short Duration Bond Fund		London[29]	Authorised unit trust	100.00%
Janus Henderson Institutional Mainstream UK Equity Trust		London[29]	Authorised Unit Trust	100.00%
Janus Henderson Institutional UK Equity Tracker Trust		London[29]	Authorised Unit Trust	100.00%
Janus Henderson Institutional High Alpha UK Equity Fund		London[29]	Authorised Unit Trust	81.90%
Janus Henderson Global Funds – Janus Henderson Institutional Overseas Bond Fund		London[29]	OEIC, sub fund	99.08%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional North American Index Opportunities Fund		London[29]	OEIC, sub fund	86.37%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund		London[29]	OEIC, sub fund	82.55%
Janus Henderson Diversified Growth Fund		London[29]	OEIC, sub fund	81.83%
Janus Henderson Institutional UK Index Opportunities Fund		London[29]	OEIC, sub fund	54.37%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Japan Index Opportunities Fund		London[29]	OEIC, sub fund	75.40%
PUTM Cautious Unit Trust		Wythall[2]	Unit Trust	100.00%
PUTM European Unit Trust		Wythall[2]	Unit Trust	99.36%
PUTM Far Eastern Unit Trust		Wythall[2]	Unit Trust	99.67%
PUTM Growth Unit Trust		Wythall[2]	Unit Trust	100.00%
PUTM Opportunity Unit Trust		Wythall[2]	Unit Trust	100.00%
PUTM International Growth Unit Trust		Wythall[2]	Unit Trust	100.00%
PUTM UK Stock Market Fund		Wythall[2]	Unit Trust	100.00%
PUTM UK Stock Market Fund (Series 3)		Wythall[2]	Unit Trust	100.00%
PUTM UK All-Share Index Unit Trust		Wythall[2]	Unit Trust	99.90%
PUTM UK Equity Unit Trust		Wythall[2]	Unit Trust	99.85%
PUTM Bothwell Asia Pacific (Excluding Japan) Fund		Wythall[2]	Unit Trust	99.54%
PUTM Bothwell Europe Fund		Wythall[2]	Unit Trust	98.82%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued
H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
PUTM Bothwell Emerging Market Debt Unconstrained Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell European Credit Fund		Wythall[2]	Unit Trust	84.95%
PUTM Bothwell Global Bond Fund		Wythall[2]	Unit Trust	99.98%
PUTM Bothwell Global Credit Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Floating Rate ABS Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Index-Linked Sterling Hedged Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Japan Tracker Fund		Wythall[2]	Unit Trust	99.57%
PUTM Bothwell Long Gilt Sterling Hedged Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Emerging Markets Equity Fund		Wythall[2]	Unit Trust	99.94%
PUTM Bothwell North America Fund		Wythall[2]	Unit Trust	99.40%
PUTM Bothwell Sterling Government Bond Fund		Wythall[2]	Unit Trust	99.56%
PUTM Bothwell Euro Sovereign Fund		Wythall[2]	Unit Trust	87.75%
PUTM Bothwell Sterling Credit Fund		Wythall[2]	Unit Trust	99.85%
PUTM Bothwell Tactical Asset Allocation Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell UK All Share Listed Equity Fund		Wythall[2]	Unit Trust	99.17%
PUTM Bothwell UK Equity Income Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Institutional Credit Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Sub-Sovereign Bd B GBP Acc		Wythall[2]	Unit Trust	100.00%
PUTM ACS UK All Share Listed Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS European ex UK Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Japan Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS North American Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Short Duration Credit Fund		Wythall[2]	Unit Trust	100.00%
Standard Life Investments Strategic Bond Fund		Edinburgh[25]	Unit Trust	72.38%
Standard Life Multi Asset Trust		Edinburgh[25]	Unit Trust	100.00%
Standard Life European Trust II		Edinburgh[25]	Unit Trust	100.00%
Standard Life Investment Company Global Emerging Markets Equity		Edinburgh[25]	OEIC, sub fund	80.60%
Standard Life Investment Company Japanese Equity Growth Fund		Edinburgh[25]	OEIC, sub fund	83.87%
Standard Life Investment Company II Euro Ethical Equity Fund		Edinburgh[25]	OEIC, sub fund	83.03%
Standard Life Investment Company II Corporate Debt Fund		Edinburgh[25]	OEIC, sub fund	100.00%
Standard Life Trust Management European Trust		Edinburgh[25]	Unit Trust	92.73%
Standard Life Trust Management Japanese Trust		Edinburgh[25]	Unit Trust	84.77%
Standard Life Trust Management North American Trust		Edinburgh[25]	Unit Trust	86.80%
Standard Life Trust Management Standard Life Short Dated UK Government Bond Trust		Edinburgh[25]	Unit Trust	99.99%
Standard Life Trust Management Standard Life Global Equity Trust II		Edinburgh[25]	Unit Trust	99.99%
Standard Life Trust Management UK Government Bond Trust		Edinburgh[25]	Unit Trust	99.98%
Standard Life Trust Management UK Corporate Bond trust		Edinburgh[25]	Unit Trust	100.00%
Standard Life Trust Management Standard Life Active Plus Bond Trust		Edinburgh[25]	Unit Trust	99.99%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Standard Life Trust Management Pacific Trust		Edinburgh[25]	Unit Trust	94.40%
Standard Life Trust Management Standard Life International Trust		Edinburgh[25]	Unit Trust	99.98%
Standard Life Trust Management Pan European Trust		Edinburgh[25]	Unit Trust	99.97%
Standard Life Trust Management UK Equity General Trust		Edinburgh[25]	Unit Trust	99.75%
Standard Life Investment Company III MyFolio Managed III Fund		Edinburgh[25]	OEIC, sub fund	77.28%
Standard Life Investment Company III Enhanced-Diversification Growth Fund		Edinburgh[25]	OEIC, sub fund	98.06%
Standard Life Investments Global SICAV II Global Short Duration Corporate Bond Fund		Luxembourg[30]	SICAV, sub fund	83.63%
Standard Life Investments Global SICAV II Myfolio Multi-Manager II Fund		Luxembourg[30]	SICAV, sub fund	66.67%
Standard Life Investments Global SICAV II Myfolio Multi-Manager IV Fund		Luxembourg[30]	SICAV, sub fund	59.04%
Standard Life Investments Global SICAV II Myfolio Multi-Manager V Fund		Luxembourg[30]	SICAV, sub fund	55.18%
Standard Life Investments Global SICAV European Equities Fund		Luxembourg[30]	SICAV, sub fund	99.02%
Standard Life Investments Global SICAV Indian Equity Midcap Opportunities Fund		Luxembourg[30]	SICAV, sub fund	64.89%
Standard Life Investments Global SICAV European Equity Unconstrained Fund		Luxembourg[30]	SICAV, sub fund	98.97%
Standard Life Investments Global SICAV Global Equities		Luxembourg[30]	SICAV, sub fund	85.09%
Standard Life Investments Global SICAV European Government All Stocks		Luxembourg[30]	SICAV, sub fund	100.00%
Standard Life Investments Global SICAV Japanese Equities		Luxembourg[30]	SICAV, sub fund	96.29%
Standard Life Investments Global SICAV Global Bond		Luxembourg[30]	SICAV, sub fund	75.98%
Standard Life Investments Global SICAV Global High Yield Bond		Luxembourg[30]	SICAV, sub fund	75.05%
Standard Life Investments Global SICAV Global REIT Focus		Luxembourg[30]	SICAV, sub fund	96.14%
Standard Life Investments Global SICAV China Equities		Luxembourg[30]	SICAV, sub fund	75.36%
Standard Life Investments Global SICAV Absolute Return Global Bond Strategies		Luxembourg[30]	SICAV, sub fund	59.18%
Standard Life Investments Global SICAV Global Emerging Markets Unconstrained		Luxembourg[30]	SICAV, sub fund	87.46%
Standard Life Investments Global SICAV Global Emerging Markets Local CCY Debt		Luxembourg[30]	SICAV, sub fund	80.46%
Standard Life Investments Global SICAV Emerging Market Debt		Luxembourg[30]	SICAV, sub fund	97.81%
Seabury Assets Fund Standard Life Investments The Sterling VNAV Liquidity Fund		Dublin[28]	UCITS, sub fund	99.57%
Seabury Assets Fund Standard Life Investments The Euro VNAV Liquidity Fund		Dublin[28]	UCITS, sub fund	100.00%
Ignis Private Equity Fund LP		Cayman Islands[5]	Limited Partnership	100.00%
Ignis Strategic Credit Fund LP		Cayman Islands[5]	Limited Partnership	100.00%
ASI Phoenix Fund Financing SCSp (PLFF)		Luxembourg[33]	Special Limited Partnership	100.00%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued
H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
North American Strategic Partners 2008 L.P.		Wilmington[18]	Limited Partnership	100.00%
North American Strategic Partners (Feeder) 2008 L.P.		Edinburgh[25]	Limited Partnership	100.00%
North American Strategic Partners 2006 L.P.		Wilmington[18]	Limited Partnership	70.00%
North American Strategic Partners (Feeder) 2006 L.P.		Edinburgh[25]	Limited Partnership	70.00%
Crawley Unit Trust		Jersey[12]	Unit Trust	100.00%
Ignis Strategic Solutions Funds plc – Fundamental Strategies Fund		Dublin[9]	OEIC, sub fund	100.00%
Ignis Strategic Solutions Funds plc – Systematic Strategies Fund		Dublin[9]	OEIC, sub fund	100.00%
AB SICAV I – ESG Responsible Global Factor Portfolio SF1 GBP (Acc)		Luxembourg[30]	OEIC, sub fund	64.36%
ASI Financial Equity Fund A Inc		London[17]	OEIC, sub fund	80.78%
Associates:				
UK Commercial Property Estates Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.62%
UK Commercial Property GP Limited	Guernsey[13]		Ordinary Shares	44.62%
UK Commercial Property Holdings Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.62%
UK Commercial Property Nominee Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.62%
The Moor House Limited Partnership	London[14]		Limited Partnership	33.27%
Moor House General Partner Limited	London[14]		Limited Partnership	33.30%
UK Commercial Property REIT Limited	Guernsey[13]		Ordinary Shares	44.62%
UK Commercial Property Estates Holdings Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.62%
UKCPT Limited Partnership	Guernsey[13]		Ordinary Shares	44.62%
UK Commercial Property Finance Holdings Limited	Guernsey[13]		Ordinary Shares	44.62%
UK Commercial Property Estates (Reading) Limited	London[17]		Ordinary Shares	44.62%
Brixton Radlett Property Limited	London[17]		Ordinary Shares	44.62%
Significant holdings:				
Janus Henderson Institutional Global Responsible Managed Fund		London[29]	OEIC, sub fund	55.00%
Standard Life Capital Infrastructure I L.P.		Edinburgh[25]	Limited Partnership	26.30%
Standard Life Investment Company – Global Emerging Market Equity Income Fund		Edinburgh[25]	OEIC, sub fund	69.68%
Standard Life Investments Global Absolute Return Strategies Retail Acc		Edinburgh[25]	Unit Trust	68.12%
Standard Life Investments Dynamic Distribution Fund		Edinburgh[25]	Unit Trust	53.60%
Standard Life Investments UK Real Estate Accumulation Feeder Fund		Edinburgh[25]	Unit Trust	45.64%
Standard Life Investments Real Estate Income Feeder Fund		London[17]	Unit Trust	37.75%
Standard Life Investment Company UK Equity Recovery Fund		Edinburgh[25]	OEIC, sub fund	36.71%
Standard Life Investment Company American Equity Income		Edinburgh[25]	OEIC, sub fund	42.09%
Standard Life Investment Company UK Equity Growth Fund		Edinburgh[25]	OEIC, sub fund	25.62%
Standard Life Investment Company UK Equity High Income Fund		Edinburgh[25]	OEIC, sub fund	31.66%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Standard Life Investment Company UK Equity High Alpha Fund		Edinburgh[25]	OEIC, sub fund	25.99%
Standard Life Investment Company Global Equity Unconstrained		Edinburgh[25]	OEIC, sub fund	45.19%
Standard Life Investment Company Higher Income Fund		Edinburgh[25]	OEIC, sub fund	39.91%
Standard Life Investment Company UK Opportunities Fund		Edinburgh[25]	OEIC, sub fund	55.36%
Standard Life Investment Company Short Duration Credit Fund		Edinburgh[25]	OEIC, sub fund	25.61%
Standard Life Investment Company Smaller Companies Fund		Edinburgh[25]	OEIC, sub fund	29.40%
Standard Life Investment Company European Equity Growth Fund		Edinburgh[25]	OEIC, sub fund	35.76%
Standard Life Investment Company II Short Dated Corporate Bond		Edinburgh[25]	OEIC, sub fund	21.81%
Standard Life Investment Company II UK Equity Unconstrained Fund		Edinburgh[25]	OEIC, sub fund	43.67%
Standard Life Investment Company II Ethical Corporate Bond Fund		Edinburgh[25]	OEIC, sub fund	41.79%
Standard Life Investment Company II GLOBAL REIT OEIC		Edinburgh[25]	OEIC, sub fund	26.72%
Standard Life Managed Trust – American Equity Unconstrained		Edinburgh[25]	Unit Trust	48.89%
Standard Life Managed Trust – Standard Life Japan Fund		Edinburgh[25]	Unit Trust	46.33%
Standard Life Managed Trust – Standard Life Global REIT Fund		Edinburgh[25]	Unit Trust	59.26%
Standard Life Investments Global Real Estate Fund		Edinburgh[25]	Unit Trust	46.97%
Standard Life Investment Company III MyFolio Market I Fund		Edinburgh[25]	OEIC, sub fund	45.32%
Standard Life Investment Company III MyFolio Market II Fund		Edinburgh[25]	OEIC, sub fund	41.19%
Standard Life Investment Company III MyFolio Market III Fund		Edinburgh[25]	OEIC, sub fund	55.75%
Standard Life Investment Company III MyFolio Market IV Fund		Edinburgh[25]	OEIC, sub fund	54.58%
Standard Life Investment Company III MyFolio Market V Fund		Edinburgh[25]	OEIC, sub fund	63.10%
Standard Life Investment Company III MyFolio Multi-Manager I Fund		Edinburgh[25]	OEIC, sub fund	54.31%
Standard Life Investment Company III MyFolio Multi-Manager II Fund		Edinburgh[25]	OEIC, sub fund	52.75%
Standard Life Investment Company III MyFolio Multi-Manager III Fund		Edinburgh[25]	OEIC, sub fund	59.12%
Standard Life Investment Company III MyFolio Multi-Manager IV Fund		Edinburgh[25]	OEIC, sub fund	53.80%
Standard Life Investment Company III MyFolio Multi-Manager V Fund		Edinburgh[25]	OEIC, sub fund	51.83%
Standard Life Investment Company III MyFolio Managed I Fund		Edinburgh[25]	OEIC, sub fund	68.15%
Standard Life Investment Company III MyFolio Managed II Fund		Edinburgh[25]	OEIC, sub fund	67.64%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Standard Life Investment Company III MyFolio Managed IV Fund		Edinburgh[25]	OEIC, sub fund	63.99%
Standard Life Investment Company III MyFolio Managed V Fund		Edinburgh[25]	OEIC, sub fund	69.78%
Standard Life Investment Company III MyFolio Multi-Manager Inc III Fund		Edinburgh[25]	OEIC, sub fund	53.83%
Standard Life Investments Global SICAV II Enhanced-Diversification Multi Asset Fund		Luxembourg[30]	SICAV, sub fund	49.94%
Standard Life Investments Global SICAV Euro Smaller Companies		Luxembourg[30]	SICAV, sub fund	30.36%
Standard Life Investments Global SICAV European Corporate Bond		Luxembourg[30]	SICAV, sub fund	31.54%
Standard Life Investments Global SICAV Global Absolute Return Strategies		Luxembourg[30]	SICAV, sub fund	44.54%
Aberdeen Liquidity Fund (Lux) Sterling Fund		Luxembourg[35]	SICAV, sub fund	37.23%
Aberdeen Liquidity Fund (Lux) Euro Fund		Luxembourg[35]	SICAV, sub fund	37.55%
Aberdeen Liquid (Lux) Ultra Short Duration Sterling Fund		Luxembourg[35]	SICAV, sub fund	39.38%
Brent Cross Partnership		London[14]	Limited Partnership	24.16%
Castlepoint LP		Birmingham[38]	Ordinary Shares	34.81%
Gallions Reach Shopping Park Unit Trust		Jersey[12]	Unit Trust	78.30%
Standard Life Investments UK Retail Park Trust		Jersey[37]	Unit Trust	56.60%
Standard Life Investments UK Shopping Centre Trust		Jersey[37]	Unit Trust	40.67%
Gallions Reach Shopping Park Limited Partnership		London[17]	Unit Trust	78.30%
Standard Life Investments Brent Cross LP		Edinburgh[25]	Unit Trust	40.67%
AXA Fixed Interest Investment ICVC – Sterling Strategic Bond Fund		London[31]	UCITS, sub fund	58.88%
AB SICAV I – Diversified Yield Plus Portfolio		Luxembourg[30]	SICAV, sub fund	42.92%
MI Somerset Global Emerging Markets		Essex[32]	OEIC, sub fund	43.86%
BlackRock Market Advantage X GBP (Acc)		London[39]	UCITS, sub fund	54.64%
Aberdeen Global Emerging Markets Quantitative Equity Fund		London[17]	SICAV, sub fund	25.00%
AXA Global High Income Fund		London[31]	OEIC, sub fund	24.58%
BMO Barclays 1-3 Year Global Corporate Bond (GBP Hedged) UCITS ETF		London[34]	UCITS, sub fund	54.51%
iShares Bloomberg Roll Select Commodity Swap UCITS ETF GBP (Acc)		Dublin[40]	UCITS, sub fund	49.74%
Nomura Funds Ireland American Century Concentrated Global Growth Equity Fund (Acc)		Dublin[42]	Unit Trust	25.36%
Amundi Index Solutions SICAV Funds – AIS Amundi Index Msci World SRI I14 HG Cap		Luxembourg[41]	SICAV, sub fund	20.38%
Amundi UCITS Funds – Amundi Global Multi-Factor Equity Fund C Cap		Luxembourg[41]	UCITS, sub fund	53.60%
AQR UCITS Funds – AQR Global Risk Parity C5 GBP (Acc)		USA[23]	UCITS, sub fund	51.22%

1 These subsidiaries have been granted audit exemption by parental guarantee.
2 1 Wythall Green Way, Wythall, Birmingham, West Midlands, B47 6WG, United Kingdom
3 Juxon House, 100 St. Paul's Churchyard, London, EC4M 8BU, United Kingdom
4 Avenue Louise 326, bte 33 1050 Brussels, Belgium
5 Ugland House, Grand Cayman, KY1-1104, Cayman Islands
6 90 St. Stephen's Green, Dublin, D2, Ireland
7 Goodbody Secretarial Limited, International Financial Services Centre, 25/28 North Wall Quay, Dublin 1, Ireland
8 Arthur Cox Building, 10 Earlsfort Terrace, Dublin 2, Dublin, Ireland
9 25/28 North Wall Quay, Dublin 1, Dublin, Ireland
10 Telestone 8, Teleport, Naritaweg 165, 1043 BW, Amsterdam, Netherlands
11 301 St Vincent Street, Glasgow, G2 5HN, United Kingdom
12 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
13 Trafalgar Court, Les Banques, St Peter Port, GY1 3QL, Guernsey
14 Kings Place, 90 York Way, London, N1 9GE, United Kingdom
15 22-24 New Street, St Pauls Gate, 4th Floor, JE1 4TR, Jersey
16 32 Commercial Street, St Helier, Jersey, Channel Islands, JE2 3RU, Jersey
17 Bow Bells House, 1 Bread Street, London, EC4M 9HH, United Kingdom
18 Corporation Service Company, 2711 Centerville Rd Suite 400, Wilmington, DE 19808, United States
19 Suite 202, 103 Foulk Road, Wilmington, Delaware, 19803, USA
20 8 Boulevard Royal, L-2449, Luxembourg, Luxembourg
21 The Pearl Centre, Lynch Wood, Peterborough, PE2 6FY, England
22 Citco (Sweden) Ab Stureplan 4c 4 Tr 114 35 Stockholm
23 Aqr Capital Management LLC, Greenwich, 06830, United States
24 6B, rue Gabriel Lippmann, Parc d'Activité Syrdall 2, L-5365 Münsbach, Luxembourg
25 1 George Street, Edinburgh, EH2 2LL, United Kingdom
26 Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH, United Kingdom
27 4th Floor, 25-28 Adelaide Road, Dublin 2, D02RY98, Ireland
28 70 Sir Rogerson's Quay, Dublin 2, Republic of Ireland
29 201 Bishopsgate, London, EC2M 3AE, United Kingdom
30 88 2-4, Rue Eugène Ruppert, L-2453 Luxembourg, Luxembourg
31 7 Newgate Street, London EC1A 7NX, United Kingdom
32 Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW, United Kingdom
33 49, Avenue J.F. Kennedy, L-1855 Luxembourg
34 BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY, United Kingdom
35 35a Avenue J.F. Kennedy, L-1855, Luxembourg
36 Avenida de Aragon 330 – Building 5, 3rd Floor, Parque Empresarial Las Mercedes, 28022 – Madrid, Spain
37 Elizabeth House, 9 Castle Street, St Helier, JE4 2QP, Jersey
38 2 Snowhill, Birmingham, B4 6WR, United Kingdom
39 12 Throgmorton Avenue, London EC2N 2DL
40 1st Floor, 2 Ballsbridge Park, Ballsbridge, Dublin, D04 YW83, Ireland
41 5, Allée Scheffer, 2520 Luxembourg, Luxembourg
42 33 Sir John Rogerson's Quay, Dublin 2, Ireland

The following subsidiaries were dissolved during the period. The subsidiaries were deconsolidated from the date of dissolution:

- Alcobendas Entrust Limited;
- Century Group Limited;
- Clearfol Investment Limited;
- Corunna Limited;
- NPI Limited;
- Pearl RLH Limited;
- Pearl Life Services Limited;
- Phoenix Life Insurance Services Limited;
- Phoenix Pensions Limited;
- Scottish Mutual Customer Care Limited;
- SPL (Holdings 1) Limited;
- SPL (Holdings) Limited;
- Zilmer Limited.

The following subsidiaries were either fully disposed of or holdings became insignificant to the Group. The subsidiaries were deconsolidated either from the date of disposal or from the date when the holdings became insignificant:

- Janus Henderson Strategic Investment Funds – Janus Henderson Institutional European Index Opportunities Fund;
- Janus Henderson Institutional UK Gilt Fund;
- AB SICAV I – Global Factor Portfolio;
- Aberdeen Capital Trust Inc;
- Standard Life Investment Company Emerging Market Debt Fund;
- Standard Life Investments Global SICAV Emerging Market Debt Unconstrained.

The Group no longer has significant holdings in the following undertakings:

- Scottish Widows Tracker and Specialist Investment Funds – International Bond Fund;
- AXA Sterling Index Linked Bond Fund;
- iShares MSCI Taiwan UCITS ETF;
- Scottish Widows UK and Income – Scottish Widows Ethical Fund;
- AQR UCITS Funds – AQR Global Risk Parity C4 UCITS Fund;
- Standard Life Investment Company American Equity Unconstrained Fund;
- Standard Life Investment Company III MyFolio Managed Income II Fund;
- Standard Life Investment Company III MyFolio Managed Income III Fund;
- Standard Life Investments Global SICAV Global Corporate Bond;
- Standard Life Investments Global SICAV Global Focused Strategies.

I. OTHER NOTES
I1. Share-Based Payment
Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Further details regarding the determination of the fair value of equity-settled share-based transactions are set out below.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

I1.1 Share-based payment expense
The expense recognised for employee services receivable during the year is as follows:

	2019 £m	2018 £m
Expense arising from equity-settled share-based payment transactions	**11**	9

I1.2 Share-based payment schemes
Long-Term Incentive Plan ('LTIP')
The Group implemented a long-term incentive plan to retain and motivate its senior management group. The awards under this plan are in the form of nil-cost options to acquire an allocated number of ordinary shares. Following the scheme of arrangement on 12 December 2018, participants in the Old PGH LTIP plan had their outstanding awards automatically exchanged for equivalent awards over PGH plc ordinary shares.

Assuming no good leavers or other events which would trigger early vesting rights, the 2017 LTIP award is subject to performance conditions tied to the Company's performance in respect of cumulative cash generation and Total Shareholder Return ('TSR'). The 2018 and 2019 LTIP awards are subject to performance conditions tied to the Company's performance in respect of cumulative cash generation, return on Adjusted Shareholder Solvency II Own Funds and TSR.

For all LTIP awards, a holding period applies so that any LTIP awards to Executive Committee members for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividends will accrue on LTIP awards until the end of the holding period. There are no cash settlement alternatives.

2019 LTIP awards were granted on 11 March 2019 and are expected to vest on 11 March 2022. The number of shares for all outstanding LTIP awards as at 10 July 2018 were increased to take into account the impact of the Group's rights issue (see note D1). This adjustment was based on the Theoretical Ex-Rights Price. The 2016 LTIP awards vested on 30 March 2019 and 2 June 2019. The 2017 awards will vest on 24 March 2020 and the 2018 awards will vest on 21 March 2021.

The fair value of these awards is estimated at the share price at the grant date, taking into account the terms and conditions upon which the instruments were granted. The fair value of the 2017, 2018 and 2019 LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2017, 2018 and 2019 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:

	2019 TSR performance condition	2018 TSR performance condition	2017 TSR performance condition
Share price (p)	**694.0**	709.5	787.5
Expected term (years)	**3.0**	3.0	2.8
Expected volatility (%)	**20**	20	24
Risk-free interest rate (%)	**0.74**	0.96	0.2
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required		

On 21 December 2018 LTIP awards were granted to certain employees under the terms of the new PGH plc scheme rules. There are discreet vesting periods for these awards and the first tranche of awards vested on 24 March 2019. The remaining awards vest on 27 March 2020 and 28 March 2021. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period.

Each year, the Group issues a Chairman's share award under the terms of the LTIP which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. On 11 March 2019, awards were granted and are expected to vest on 11 March 2022. The 2017 and 2018 awards are expected to vest on 24 March 2020 and 21 March 2021 respectively. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving an established minimum performance grading.

Deferred Bonus Share Scheme ('DBSS')
Each year, part of the annual incentive for certain executives is deferred into shares of the parent company. As noted for the LTIP, following the Scheme of Arrangement, participants in the Old PGH DBSS plan had their outstanding awards automatically exchanged for equivalent awards over PGH plc ordinary shares. The grant of these shares is conditional on the employee remaining in employment with the Group for a period of three years from the date of grant. Dividends will accrue for DBSS awards over the three year deferral period.

The 2019 DBSS was granted on 11 March 2019 and is expected to vest on 11 March 2022. The number of shares for all outstanding DBSS awards as at 10 July 2018 were increased to take into account the impact of the Group's rights issue (see note D1). This adjustment has been based on the Theoretical Ex-Rights Price. The 2016 DBSS awards vested during the year. The 2017 awards are expected to vest on 20 March 2020 and the 2018 awards are expected to vest on 15 March 2021.

The fair value of these awards is estimated at the share price at the grant date, taking into account the terms and conditions upon which the options were granted.

Sharesave scheme

The sharesave scheme allows participating employees to save up to £500 each month for the UK scheme and up to €500 per month for the Irish scheme over a period of either three or five years. The Irish sharesave scheme commenced with the 2019 grant. The 2019 sharesave options were granted on 1 April 2019.

Under the sharesave arrangement, participants remaining in the Group's employment at the end of the three or five year saving period are entitled to use their savings to purchase shares at an exercise price at a discount to the share price on the date of grant. Employees leaving the Group for certain reasons are able to use their savings to purchase shares if they leave less than six months before the end of their three or five year periods.

Following the scheme of arrangement, participants in the Old PGH sharesave plan exchanged their options over Old PGH shares for equivalent options over PGH plc ordinary shares. All sharesave options were increased in November 2016 and again in July 2018 following the Group's rights issues (see note D1) and the exercise price of these awards was also amended as a result of these issues.

The fair value of the options has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model include expected share price volatility and expected dividend yield.

The following information was relevant in the determination of the fair value of the 2015 to 2019 UK sharesave options:

	2019 sharesave	2018 sharesave	2017 sharesave	2016 sharesave	2015 sharesave
Share price (£)	**6.800**	7.685	7.470	8.890	8.430
Exercise price (£) (Revised)	**5.610**	5.629	5.674	5.746	5.654
Expected life (years)	**3.25 and 5.25**	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	**1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)**	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	0.2 (for 3.25 year scheme) and 0.4 (for 5.25 year scheme)	0.6 (for 3.25 year scheme) and 1.0 (for 5.25 year scheme)	0.8 (for 3.25 year scheme) and 1.2 (for 5.25 year scheme)
Expected volatility (%) based on the Company's share price volatility to date	**30.0**	30.0	30.0	30.0	30.0
Dividend yield (%)	**6.8**	6.5	6.3	6.0	6.3

The information for determining the fair value of the 2019 Irish sharesave options differed from that included in the table above as follows:

- share price (€): 7.946
- Exercise price (€) 6.540
- Risk-free rate (%): (0.1) (for 3.25 year scheme) and nil (for 5.25 year scheme).

Share Incentive Plan

The Group operates two Share Incentive Plans ('SIPs') open to UK and Irish employees which allows participating employees to purchase 'Partnership shares' in the Company through monthly contributions. In respect of the UK SIP, the contributions are limited to the lower of £150 per month and 10% gross monthly salary. During the year the matching element of the UK SIP was amended to give the employee one 'Matching share' for each 'Partnership share' purchased limited to £50. Contributions above £50 are not matched. The Irish SIP was launched during the year and this plan gives the employee 1.4 'Matching shares' for each 'Partnership share' purchased. For this plan monthly contributions are limited to the lower of €40 per month and 7.5% of gross monthly salary.

The fair value of the Matching shares granted is estimated as the share price at date of grant, taking into account terms and conditions upon which the instruments were granted. At 31 December 2019, 146,769 matching shares (including unrestricted shares) were conditionally awarded to employees (2018: 57,918).

I1.3 Movements in the year

The following tables illustrate the number of, and movements in, LTIP, Sharesave and DBSS share options during the year:

	Number of share options 2019		
	LTIP	**Sharesave**	**DBSS**
Outstanding at the beginning of the year	**3,794,061**	**1,375,620**	**771,040**
Granted during the year	**1,657,107**	**1,669,701**	**356,872**
Forfeited during the year	**(588,747)**	**(186,878)**	**–**
Exercised during the year	**(224,866)**	**(315,679)**	**(222,045)**
Outstanding at the end of the year	**4,637,555**	**2,542,764**	**905,867**

	Number of share options 2018		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	2,992,327	1,264,992	630,489
Granted during the year	1,215,824	453,167	289,625
Corporate action	416,937	164,896	77,642
Forfeited during the year	(576,218)	(237,293)	(26,141)
Exercised during the year	(254,809)	(270,142)	(200,575)
Outstanding at the end of the year	3,794,061	1,375,620	771,040

The weighted average fair value of options granted during the year was £4.10 (2018: £5.75).

The weighted average share price at the date of exercise for the rewards exercised is £6.81 (2018: £6.82).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2019 is five years (2018: six years).

I. OTHER NOTES continued

I2. Cash Flows From Operating Activities

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

	2019 £m	2018 restated[1] £m
Profit for the period before tax	**351**	259
Non-cash movements in profit for the period before tax:		
Gain on acquisition	**–**	(141)
Fair value losses/(gains) on:		
Investment property	**55**	18
Financial assets and derivative liabilities	**(18,784)**	12,718
Change in fair value of borrowings	**(47)**	29
Amortisation of intangible assets	**402**	214
Change in present value of future profits	**(70)**	(1)
Change in unallocated surplus	**(84)**	(88)
Share-based payment charge	**11**	9
Finance costs	**162**	142
Net interest expense on Group defined benefit pension scheme liability/asset	**29**	6
Pension past service costs	**–**	57
Other costs of pension schemes	**4**	6
Decrease in investment assets	**6,131**	5,230
(Increase)/decrease in reinsurance assets	**(295)**	681
Increase/(decrease) in insurance contract and investment contract liabilities	**11,792**	(19,043)
Decrease in deposits received from reinsurers	**(236)**	(178)
Increase/(decrease) in obligation for repayment of collateral received	**1,026**	(568)
Net (increase)/decrease in working capital	**(128)**	329
Other items:		
Contributions to defined benefit pension schemes	**(46)**	(46)
Acquisition related expenses to be included within cash flows from investing activities	**–**	43
Cash generated/(utilised) by operations	**273**	(324)

1 See note A1 for details of restatements.

I3. Capital Management

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

This note sets out the Group's approach to managing capital and provides an analysis of Own Funds and SCR.

Risk and capital management objectives

The risk management objectives and policies of the Group are based on the requirement to protect the Group's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the Group can meet its various cash flow requirements. Subject to this, the Group seeks to use available capital to achieve increased returns, balancing risk and reward, to generate additional value for policyholders and shareholders.

In pursuing these objectives, the Group deploys financial and other assets and incurs insurance contract liabilities and financial and other liabilities. Financial and other assets principally comprise investments in equity securities, debt securities, collective investment schemes, property, derivatives, reinsurance, trade and other receivables, and banking deposits. Financial liabilities principally comprise investment contracts, borrowings for financing purposes, derivative liabilities and net asset value attributable to unit holders.

The risk management disclosures in the consolidated financial statements set out the major risks that the Group businesses are exposed to and describe the Group's approach to managing these. The section on financial risk is included in note E6, the section on insurance risk is included in note F4 and the sections on risk and capital management objectives and other risks are included below. The Group's risk management framework is described in the risk management commentary on pages 48 to 56 of the Annual Report and Accounts.

Other risks

Customer risk

Customer risk is the risk of reductions in earnings and/or value through inappropriate or poor customer treatment (including poor advice).

Operational risk

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

Capital Management Framework

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

- to provide appropriate security for policyholders and meet all regulatory capital requirements under the Solvency II regime while not retaining unnecessary excess capital;
- to ensure sufficient liquidity to meet obligations to policyholders and other creditors;
- to optimise the Fitch Ratings financial leverage to maintain an investment grade credit rating; and
- to maintain a stable and sustainable dividend policy.

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

Group capital

Group capital is managed on a Solvency II basis. Under the Solvency II framework, the primary sources of capital managed by the Group comprise the Group's Own Funds as measured under the Solvency II principles adjusted to exclude surplus funds attributable to the Group's unsupported with-profit funds and unsupported pension schemes.

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

The Group aims to maintain a Solvency II surplus at least equal to its Board-approved capital policy, which reflects Board risk appetite for meeting prevailing solvency requirements.

The capital policy of each Life Company is set and monitored by each Life Company Board. These policies ensure there is sufficient capital within each Life Company to meet regulatory capital requirements under a range of stress conditions. The capital policy of each Life Company varies according to the risk profile and financial strength of the company.

The capital policy of each Group Holding Company is designed to ensure that there is sufficient liquidity to meet creditor obligations through the combination of cash buffers and cash flows from the Group's operating companies.

Own Funds and SCR

Basic Own Funds represents the excess of assets over liabilities from the Solvency II balance sheet adjusted to add back any relevant subordinated liabilities that meet the criteria to be treated as capital items.

The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). The Group's Own Funds are assessed for their eligibility to cover the Group SCR with reference to both the quality of capital and its availability and transferability. Surplus funds in with-profit funds of the Life companies and in the pension schemes are restricted and can only be included in Eligible Own Funds up to the value of the SCR they are used to support.

Eligible Own Funds to cover the SCR are obtained after applying the prescribed Tiering limits and transferability restrictions to the Basic Own Funds.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1 in 200 year event'.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess 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 and Abbey Life businesses within the scope of the Group's Internal Model in March 2017 and March 2018 respectively.

The acquired Standard Life Assurance businesses also determine their capital requirements in accordance with an approved partial Internal Model. In accordance with the approvals received from the PRA, the Enlarged Group operates a partial Internal Model to calculate Group SCR, aggregating outputs from both the existing Phoenix Internal Model and the Standard Life Internal Model with no diversification between the two. A harmonisation programme to combine the two models into a single Internal Model has commenced. The Irish life entity, Standard Life International Designated Activity Company, determines its capital requirements in accordance with the Standard Formula.

Group capital resources – unaudited

The Group capital resources are based on the Group's Eligible Own Funds adjusted to remove amounts pertaining to unsupported with-profit funds and Group pension schemes:

Unaudited	2019 £bn	2018 £bn
PGH plc Eligible Own Funds	**10.8**	10.3
Remove Own Funds pertaining to unsupported with-profit funds and pension schemes	**(2.5)**	(2.3)
Group capital resources	**8.3**	8.0

Solvency II surplus – unaudited

An analysis of the PGH plc Solvency II surplus as at 31 December 2019 is provided in the business review section on pages 42 to 44. The Group has complied with all externally imposed capital requirements during the year.

Additional information on the PGH plc Own Funds, SCR and MCR is included in the additional capital disclosures on pages 262 and 263.

I. OTHER NOTES continued

I4. Related Party Transactions

In the ordinary course of business, the Group and its subsidiaries carry out transactions with related parties as defined by IAS 24 *'Related party disclosures'*.

I4.1 Related party transactions

During the year, the Group entered into the following transactions with related parties. As set out in note H2, SLA plc took a 19.98% equity stake in the Enlarged Group, and as a result became a related party of the Group. SLA plc is considered to have a significant influence over the Group due to their equity stake and representation on the Board of Directors.

	Transactions 2019 £m	Balances outstanding 2019 £m	Transactions 2018 £m	Balances outstanding 2018 £m
Pearl Group Staff Pension Scheme				
Payment of administrative expenses	**(3)**	**–**	(3)	–
UK Commercial Property Trust Limited				
Dividend income	**21**	**–**	22	–
Reduction in investment	**(17)**	**–**	(35)	–
SLA plc				
Investment management fees	**(133)**	**(55)**	(87)	(55)
Fees under Transitional Services Arrangement and material outsource agreements	**(6)**	**(4)**	(2)	(2)
Receipts under Transitional Services Arrangement	**75**	**10**	26	15
Net receipts under Client Service Proposition Agreement	**18**	**23**	5	2
Net payments under deed of indemnity	**(33)**	**(64)**	–	–
Dividend paid	**(67)**	**–**	(33)	–

I4.2 Transactions with key management personnel

The total compensation of key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the Executive and Non-Executive Directors, are as follows:

	2019 £m	2018 £m
Salary and other short-term benefits	**5**	5
Equity compensation plans	**2**	2

Details of the shareholdings and emoluments of individual Directors are provided in the Remuneration report on pages 99 to 130.

During the year to 31 December 2019 key management personnel and their close family members contributed £16,395 (2018: £28,000) to Pensions and Savings products sold by the Group. At 31 December 2019, the total value of key management personnel's investments in Group Pensions and Savings products was £2,590,240 (2018: £1,639,000).

I5. Commitments

This note analyses the Group's other commitments.

	2019 £m	2018 £m
To subscribe to private equity funds and other unlisted assets	**396**	655
To purchase, construct or develop investment property and income strips	**161**	125
For repairs, maintenance or enhancements of investment property	**6**	15

I6. Contingent Liabilities

Where the Group has a possible future obligation as a result of a past event, or a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

Agreements with Standard Life Aberdeen

On 23 February 2018, the Group entered into the share purchase agreement with Standard Life Aberdeen plc (the 'SLA SPA'), in connection with the Group's acquisition of the Standard Life Assurance businesses. In connection with the acquisition, certain members of the Group entered into the SLA Transitional Services Agreement ('the TSA') with certain members of the Standard Life Aberdeen group, pursuant to which certain services were agreed to be provided from one group to the other group for a specified period. In addition, certain members of the Group entered into the SLA Client Service and Proposition Agreement ('the CSPA') with certain members of the Standard Life Aberdeen group, which set out the terms under which the parties would provide services and support to each other with respect to certain client propositions, products and services. The Group is currently engaged in ongoing discussions with members of the Standard Life Aberdeen group in respect of disagreements over the operation of certain aspects of the SLA SPA relating to services and expenses, and the scope and cost of services provided pursuant to the TSA, the CSPA and certain other agreements between the Group and members of the Standard Life Aberdeen group. Whilst Phoenix and Standard Life Aberdeen are currently seeking a commercial resolution in respect of such disagreements, it is possible that all or some of these matters could be escalated to a dispute resolution process provided for in the relevant agreements, or result in legal or arbitration proceedings. There is no certainty as to how the current disagreements will be resolved and the extent to which an outflow of resources will be required to settle any obligation, should it arise.

Legal proceedings

In the normal course of business, the Group is exposed to certain legal issues, which can involve litigation and arbitration. At the period end, the Group has a number of contingent liabilities in this regard, none of which are considered by the Directors to be material, with the exception of the Standard Life Aberdeen agreements matters detailed above.

17. Events After the Reporting Period

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

On 29 January 2020, the Company issued US $750 million fixed rate reset perpetual restricted Tier 1 contingent convertible notes with an initial fixed interest rate of 5.625%. Fees associated with these notes will be deferred and amortised over the life of the loan.

On 6 December 2019, the Company announced the proposed acquisition of the entire issued share capital of ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited ('Swiss Re'). The acquisition was approved at a general meeting of the Company's shareholders on 13 February 2020 and is subject to regulatory approvals. Total consideration of £3.2 billion payable to Swiss Re upon completion will be satisfied through cash consideration of £1.2 billion, subject to certain customary adjustments, and the issuance to Swiss Re (or a nominated member of its group) of ordinary shares with a value of £2.0 billion.

On 27 February 2020, the Company entered into a £500 million bridge facility (the 'bridge facility'). The bridge facility matures on the first anniversary of the completion of the acquisition of ReAssure Group plc but can be extended by a further six months on two occasions. The bridge facility is available to be used to finance the acquisition of ReAssure Group plc on a customary certain funds basis, and, subject to the agreement of the lenders, may also be available to be utilised after completion of the acquisition for the general corporate purposes of the Group. There are no mandatory or target amortisation payments associated with the bridge facility but the bridge facility does include mandatory prepayment obligations that are customary for a bridge facility of this nature and voluntary prepayments are permissible. The bridge facility accrues interest at a margin over LIBOR that starts at 0.35% per annum and steps up periodically until maturity.

On 6 March 2020, the Board recommended a final dividend of 23.4p per share (2018: 23.4p per share) for the year ended 31 December 2019. Payment of the final dividend is subject to shareholder approval at the AGM. The cost of this dividend has not been recognised as a liability in the consolidated financial statements for 2019 and will be charged to the consolidated statement of changes in equity in 2020.

N LYONS
C BANNISTER
J MCCONVILLE
A BARBOUR
A BRIGGS
C FLEMING
K GREEN
W MAYALL
J POLLOCK
B RICHARDS
N SHOTT
K SORENSON
M TUMILTY

6 March 2020

PARENT COMPANY FINANCIAL STATEMENTS STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 £m	2018 £m
ASSETS			
Investments in Group entities	9	**6,928**	4,146
Financial assets			
Equities	11	**2**	–
Loans and deposits	10	**1,227**	2,056
Derivatives	6	**5**	–
Debt securities	11	**43**	–
Collective investment schemes	11	**200**	–
Deferred tax	12	**15**	–
Other amounts due from Group entities	18	**198**	20
Cash and cash equivalents	13	**45**	1
Total assets		**8,663**	6,223
EQUITY AND LIABILITIES			
Equity attributable to ordinary shareholders			
Share capital	3	**72**	72
Share premium	3	**2**	–
Other reserve		**(4)**	(4)
Retained earnings		**5,368**	4,075
Total equity attributable to ordinary shareholders		**5,438**	4,143
Tier 1 Notes	4	**411**	411
Total equity		**5,849**	4,554
Liabilities			
Financial liabilities			
Borrowings	5	**2,020**	1,634
Derivatives	6	**31**	1
Other amounts due to Group entities	18	**533**	1
Provisions	7	**172**	–
Accruals and deferred income	8	**58**	33
Total liabilities		**2,814**	1,669
Total equity and liabilities		**8,663**	6,223

The notes identified numerically on pages 247 to 254 are an integral part of these separate financial statements. Where items also appear in the consolidated financial statements, reference is made to the notes (identified alphanumerically) on pages 154 to 243.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital (note 3) £m	Share premium (note 3) £m	Other reserve (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes (note 4) £m	Total equity £m
At 1 January 2019	**72**	**–**	**(4)**	**4,075**	**4,143**	**411**	**4,554**
Total comprehensive income for the year attributable to owners	**–**	**–**	**–**	**1,643**	**1,643**	**–**	**1,643**
Issue of ordinary share capital, net of associated commissions and expenses	**–**	**2**	**–**	**–**	**2**	**–**	**2**
Dividends paid on ordinary shares (note B4)	**–**	**–**	**–**	**(338)**	**(338)**	**–**	**(338)**
Coupon paid on Tier 1 Notes, net of tax relief	**–**	**–**	**–**	**(23)**	**(23)**	**–**	**(23)**
Credit to equity for equity-settled share-based payments (note I1)	**–**	**–**	**–**	**11**	**11**	**–**	**11**
At 31 December 2019	**72**	**2**	**(4)**	**5,368**	**5,438**	**411**	**5,849**

For the period from 5 October 2018 to 31 December 2018

	Share capital (note 3) £m	Share premium (note 3) £m	Other reserve (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes (note 4) £m	Total equity £m
On incorporation at 5 October 2018	–	–	–	–	–	–	–
Total comprehensive expense for the period attributable to owners	–	–	–	(3)	(3)	–	(3)
Issue of ordinary shares under scheme of arrangement	72	4,078	(4)	–	4,146	–	4,146
Capital reduction	–	(4,078)	–	4,078	–	–	–
Issue of Tier 1 Notes via substitution	–	–	–	–	–	411	411
At 31 December 2018	72	–	(4)	4,075	4,143	411	4,554

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated by operations	14	**411**	–
Net cash flows from operating activities		**411**	–
Cash flows from investing activities			
Investment income		**2**	–
Interest received from Group entities		**77**	29
Net cash flows from investing activities		**79**	29
Cash flows from financing activities			
Proceeds from issuing ordinary shares	3	**2**	–
Proceeds from new shareholder borrowings, net of associated expenses	5	**100**	–
Repayment of shareholder borrowings	5	**(100)**	–
Ordinary share dividends paid		**(338)**	–
Interest paid on borrowings		**(81)**	(28)
Coupon paid on Tier 1 Notes		**(29)**	–
Net cash flows from financing activities		**(446)**	(28)
Net increase in cash and cash equivalents		**44**	1
Cash and cash equivalents at the beginning of the period		**1**	–
Cash and cash equivalents at the end of the period		**45**	1

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements have been prepared on a going concern and on an historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. Profit attributable to owners for the year ended 31 December 2019 was £1,643 million (2018: £3 million loss).

Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and in accordance with the provisions of the UK Companies Act 2006.

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

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

(b) Accounting Policies

Where applicable, the accounting policies in the separate financial statements are the same as those presented in the consolidated financial statements on pages 147 to 243 with the exception of the two policies detailed below.

The Company's accounting policy for financial assets is in accordance with the requirements of IFRS 9 *'Financial Instruments'*. As the Group has applied the temporary exemption from IFRS 9 available for entities whose activities are predominantly connected with insurance contracts, a different accounting policy has been adopted in the preparation of the consolidated financial statements. In addition, the Company has not adopted the Group's policy of hedge accounting.

Where an accounting policy can be directly attributed to a specific note to the consolidated financial statements, the policy is presented within that note. Each note within the Company financial statements makes reference to the note to the consolidated financial statements containing the applicable accounting policy. The accounting policy in relation to foreign currency transactions is included within note A2.1 to the consolidated financial statements.

Investments in Group entities

Investments in Group entities are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment is impaired by assessing whether any indicators of impairment exist. If objective evidence of impairment exists, the Company calculates the amount of impairment as the difference between the recoverable amount of the Group entity and its carrying value and recognises the amount as an expense in the income statement.

The recoverable amount is determined based on the cash flow projections of the underlying entities.

Financial assets

Classification of financial assets

Financial assets are measured at amortised cost where they:

- have contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. Subsequent to initial recognition, these financial assets are carried at amortised cost, using the effective interest method.

Financial assets measured at amortised cost are included in notes 10 and 13.

Equities, debt securities, collective investment schemes and derivatives are measured at FVTPL as they are managed on a fair value basis.

Impairment of financial assets

The Company assesses the expected credit losses associated with its loans and deposits, other amounts due from Group entities and cash carried at amortised cost. The measurement of credit impairment is based on an Expected Credit Loss ('ECL') model and depends upon whether there has been a significant increase in credit risk.

For those credit exposures for which credit risk has not increased significantly since initial recognition, the Company measures loss allowances at an amount equal to the total expected credit losses resulting from default events that are possible within 12 months after the reporting date ('12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the Company measures and recognises an allowance at an amount equal to the expected credit losses over the remaining life of the exposure, irrespective of the timing of the default ('Lifetime ECL'). If the financial asset becomes 'credit-impaired' (following significant financial difficulty of issuer/borrower, or a default/breach of a covenant), the Company will recognise a Lifetime ECL. ECLs are derived from unbiased and probability-weighted estimates of expected loss.

See note 15 for detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs and subsequent remeasurements of the ECL are recognised in the income statement. For other receivables, the ECL rate is recalculated each reporting period with reference to the counterparties of each balance.

2. FINANCIAL INFORMATION

New Accounting Pronouncements not yet Effective

Details of the standards, interpretations and amendments to be adopted in future periods are detailed in note A5 to the consolidated financial statements, none of which are expected to have a significant impact on the Company's financial statements.

2. FINANCIAL INFORMATION continued

New Accounting Pronouncements not yet Effective continued

Note A5 outlines that the Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 *'Insurance Contracts'* from applying IFRS 9 until 1 January 2021 (recommended deferral period extended by IASB to 2022) as a result of meeting the exemption criteria as at 31 December 2015. As detailed above, such an exemption is not applicable to the Company given it is not an insurer. Therefore IFRS 9 has been adopted by the Company and the relevant disclosures are included in these financial statements.

Note A4 outlines that the Group has adopted IFRS 16 *'Leases'* and amendments to IAS19 *'Employee benefits'* but the Company currently does not have any leases or pension schemes and therefore has not adopted these changes.

3. SHARE CAPITAL AND SHARE PREMIUM

The Company was incorporated on 5 October 2018 with an issued share capital comprising 2 ordinary shares of £0.10 each and 50,000 redeemable preference shares of £1.00 each.

On 31 October 2018 all issued redeemable preference shares were cancelled.

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 the Company in consideration for the allotment to the Old PGH shareholders of one ordinary share in the Company for each ordinary share in Old PGH that they held on the scheme record date, 12 December 2018.

The shares of the Company are listed on the London Stock Exchange and trading in these shares commenced on 13 December 2018.

Following court approval on 18 December 2018, the entire issued share premium of the Company as at that date was cancelled. The sum of £4,078 million arising on the share premium cancellation has been credited to the Company's retained earnings.

During 2019, the Company issued 315,730 shares at a premium of £2 million in order to satisfy its obligations to employees under the Group's sharesave schemes.

	2019 £m	2018 £m
Issued and fully paid:		
721.5 million ordinary shares of £0.10 each (2018: 721.2 million)	**72**	72

2019	**Number**	**£**
Shares in issue at 1 January	**721,199,214**	**72,119,921**
Ordinary shares issued in the period	**315,730**	**31,573**
Ordinary shares in issue at 31 December	**721,514,944**	**72,151,494**

2018	Number	£
At incorporation on 5 October 2018	2	–
Issue of shares under scheme of arrangement	721,199,212	72,119,921
Ordinary shares in issue at 31 December	721,199,214	72,119,921

4. TIER 1 NOTES

The accounting policy for the Tier 1 Notes is included in note D3 to the consolidated financial statements.

	2019 £m	2018 £m
Tier 1 notes	**411**	411

On 12 December 2018 the Company was substituted in place of Old PGH as issuer of the Tier 1 Notes and these were recognised at the £411 million fair value of an intra-group loan that was received as consideration. Details of the terms of the Tier 1 Notes can be found in note D3 to the consolidated financial statements.

5. BORROWINGS

The accounting policy for borrowings is included in note E5 to the consolidated financial statements.

	Carrying value		**Fair value**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
£428 million subordinated loans (note a)	**437**	439	**503**	441
£450 million Tier 3 subordinated notes (note b)	**448**	447	**473**	447
US $500 million Tier 2 bonds (note c)	**334**	343	**396**	342
€500 million Tier 2 notes (note d)	**385**	405	**473**	390
£300 million senior unsecured bond (note e)	**128**	–	**130**	–
Loan due to Standard Life Assurance Limited (note f)	**288**	–	**288**	–
Total borrowings	**2,020**	1,634	**2,263**	1,620
Amount due for settlement after 12 months	**2,020**	1,634		

a. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £428 million subordinated notes due 2025 at a coupon of 6.625%, which were initially recognised at fair value of £439 million.

b. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £450 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%, which were initially recognised at fair value of £447 million.

c. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%, which were initially recognised at fair value of £349 million.

d. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the €500 million Tier 2 notes due 2029 with a coupon of 4.375%, which were initially recognised at fair value of £407 million.

e. On 18 June 2019, the Company was substituted in place of Old PGH as issuer of the £300 million 7 year senior unsecured bond due 2021 at an annual coupon of 5.75% with principal outstanding of £122 million, which was initially recognised at fair value of £131 million.

f. On 22 February 2019, the Company recognised a loan to Standard Life Assurance Limited ('SLAL') for £162 million, as consideration for Standard Life International Designated Activity Company ('SLIDAC') due 2024. On 28 March 2019 the purchase price was adjusted by £120 million, which resulted in an increase in the loan principal. Interest accrues at LIBOR plus 1.66% and during 2019 £6 million of interest was capitalised.

g. On 12 December 2018, the Company became an additional borrower on a £900 million unsecured revolving credit facility, maturing in June 2022. On 27 June 2019, the Company replaced this facility with a £1.25 billion unsecured revolving credit facility (the 'revolving facility'), maturing in June 2024. There are no mandatory or target amortisation payments associated with the facility but the facility does include customary mandatory prepayments obligations and voluntary prepayments are permissible. The facility accrues interest at a margin over LIBOR that is based on credit rating. On 23 October 2019 the Company drew down £100 million under the facility and the balance was repaid on 25 November 2019. The facility remains undrawn as at 31 December 2019.

h. On 12 December 2018, the Company became an additional borrower and guarantor to an acquisition facility with an aggregate principal amount of £600 million. The acquisition facility was undrawn as at 31 December 2018. On 27 June 2019, the facility was cancelled.

Borrowings initially recognised at fair value are being amortised to par value over the life of the borrowings.

As part of the substitutions, accrued interest was also transferred to the Company and was settled prior to 31 December 2018.

For the purposes of the additional fair value disclosures for liabilities recognised at amortised cost, all borrowings have been categorised as Level 2 financial instruments.

Reconciliation of Liabilities Arising from Financing Activities

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

		Cash		Non-Cashflow					
	At 1 January 2019 £m	New borrowings, net of costs £m	Repayments £m	Loan issued via subsitution[1] £m	New borrowings net of issue costs[2] £m	Movement in foreign exchange £m	Amortisation £m	Capitalised interest	At 31 December 2019 £m
£428 million subordinated notes	439	–	–	–	–	–	(2)	–	437
£450 million Tier 3 subordinated notes	447	–	–	–	–	–	1	–	448
US $500 million Tier 2 bonds	343	–	–	–	–	(13)	4	–	334
€500 million Tier 2 notes	405	–	–	–	–	(24)	4	–	385
£300 million senior unsecured bond	–	–	–	131	–	–	(3)	–	128
£1.25 billion revolving credit facility	–	100	(100)	–	–	–	–	–	–
Loan due to Standard Life Assurance Limited	–	–	–	–	282	–	–	6	288
	1,634	100	(100)	131	282	(37)	4	6	2,020

		Non-Cashflow		
	At 5 October 2018 £m	Loan issued via subsitution[1] £m	Movement in foreign exchange £m	At 31 December 2018 £m
£428 million subordinated notes	–	439	–	439
£450 million Tier 3 subordinated notes	–	447	–	447
US $500 million Tier 2 bonds	–	349	(6)	343
€500 million Tier 2 notes	–	407	(2)	405
	–	1,642	(8)	1,634

1 Loans issued via substitution are a non-cashflow item as consideration was the transfer of loans and deposits (refer to note 10).

2 Loan issued to SLAL, a subsidiary undertaking, was in consideration for the transfer to the Company of its investment in SLIDAC.

6. DERIVATIVES

In 2019, the Company entered into a forward currency swap with another group company to hedge against adverse currency movements in respect of the €287 million capital injection into SLIDAC.

The Company also entered into a forward currency swap in 2019 to hedge against adverse currency movements in respect of the equity and debt holding in a property investment structure which was transferred to the Company.

The Company entered into a cross currency swap with another group company in 2018 to hedge against adverse currency movements in respect of the €500 million Tier 2 notes.

The fair value of the derivative financial instruments are as follows:

	Asset		Liability	
	2019 £m	2018 £m	2019 £m	2018 £m
Cross currency swap	–	–	31	1
Forward currency swap	5	–	–	–
	5	–	31	1

Derivative Collateral Arrangements

The accounting policy for collateral arrangements is included in note E4 to the consolidated financial statements.

Assets Accepted

The maximum exposure to credit risk in respect of OTC derivative assets is £5 million of which credit risk of £3 million is mitigated by use of collateral arrangements (which are settled net after taking account of any OTC derivative liabilities owed by the counterparty).

Assets Pledged

The Company pledges collateral in respect of its OTC derivative liabilities. The value of assets pledged at 31 December 2019 in respect of OTC derivative liabilities of £34 million amounted to £3 million.

7. PROVISIONS

During 2019 the Company recognised a Standard Life transition restructuring provision of £159 million and other provisions of £13 million. Details are included in note G7 to the consolidated financial statements.

8. ACCRUALS AND DEFERRED INCOME

The accounting policy for accruals and deferred income is included in note G11 to the consolidated financial statements.

	2019 £m	2018 £m
Accruals and deferred income	58	33
Amount due for settlement after 12 months	–	–

9. INVESTMENTS IN GROUP ENTITIES

	2019 £m	2018 £m
Cost		
At 1 January 2019 and 5 October 2018	4,146	–
Additions	6,928	4,146
At 31 December	11,074	4,146
Impairment		
At 1 January 2019 and 5 October 2018	–	–
Charge for the year	(4,146)	–
At 31 December	(4,146)	–
Carrying amount		
At 31 December	6,928	4,146

On 12 December 2018, the Company became the ultimate parent undertaking of the Group by acquiring the entire share capital of Old PGH via a share for share exchange. The cost of investment in Old PGH, reflected in the table above, was determined as the carrying amount of the Company's share of the equity of Old PGH on the date of the transaction. The difference between the cost of investment and the market capitalisation of Old PGH immediately before the share for share exchange of £4 million has been recognised as an other reserve, and is shown as a separate component of equity.

On 21 February 2019, the Company acquired SLIDAC from its subsidiary SLAL, for an initial consideration of £162 million settled in the form of a loan (see note 5) such that its interest in SLIDAC is now directly held. On acquisition, the Company subscribed for an additional share in SLIDAC for a consideration of £250 million. Following the completion of a Part VII transfer of the European branch business from SLAL to SLIDAC, the purchase price for the acquisition of SLIDAC was increased by £120 million, again settled in the form of a loan, which increased the carrying value of the Company's investment in SLIDAC to £532 million.

On 18 June 2019, the Company acquired Phoenix Life Holdings Limited from its subsidiaries PGH (LCA) Limited and PGH (LCB) Limited for a consideration of £3,356 million, settled via a distribution in-specie. On the same day, the Company also acquired SLAL from Old PGH for an initial consideration of £2,994 million which was subsequently increased by £46 million. The consideration for this acquisition was settled partly through the cancellation of the £825 million loan due from Old PGH (see note 10), with the remainder settled through a distribution in-specie.

Where indicators of impairment have been identified the carrying value of the Company's investments in its subsidiaries has been tested for impairment at the period end. In 2019, impairments of £4,146m (2018: £nil) were recognised to align the carrying value of certain investments to their recoverable amount. The impairment charge arose as a consequence of the receipt of a £5,640 million dividend from Old PGH during the year.

The value in use has been used as the recoverable amount and this has been determined using the present value of the future cash flows of the Company's subsidiaries including the in-force long-term business, the asset management business and the service company. The cash flows used in this calculation are consistent with those adopted by management in the operating plan and, beyond the period of this plan, reflect the anticipated run-off of the in-force life insurance business. Future cash flows have been valued using discount rates which reflect the risks inherent to each cash flow. For the other subsidiaries, the value in use has been determined using net assets values.

For a list of principal Group entities, refer to note H5 of the consolidated financial statements. The entities directly held by the Company are separately identified.

10. LOANS AND DEPOSITS

	Carrying value		Fair value	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Loans due from PLHL (note a)	**1,220**	1,231	**1,363**	1,231
Loans due from Old PGH (note b)	**–**	825	**–**	808
Loans due from Phoenix Group Employee Benefit Trust (note c)	**7**	–	**7**	–
Total loans and deposits	**1,227**	2,056	**1,370**	2,039
Amounts due after 12 months	**1,227**	2,056		

All loans and deposit balances are due from Group entities and are measured at amortised cost using the effective interest method. The fair value of these loans and deposits are also disclosed.

a) On 12 December 2018, the Company was assigned a £428 million subordinated loan by Phoenix Life Holdings Limited ('PLHL'). The loan accrues interest at a rate of 6.675% and matures on 18 December 2025. This loan was initially recognised at fair value of £439 million and is accreted to par over the period to 2025. At 31 December 2019, the carrying value of the loan was £438 million (2018: £440 million).

On 12 December 2018, the Company was assigned a £450 million subordinated loan by PLHL. The loan accrues interest at a rate of 4.175% and matures on 20 July 2022. This loan was initially recognised at fair value of £447 million and is accreted to par over the period to 2022. At 31 December 2019, the carrying value of the loan was £448 million (2018: £448 million).

On 12 December 2018, the Company was assigned a US $500 million loan by PLHL due 2027 with a coupon of 5.375%. This loan was initially recognised at fair value of £349 million and is accreted to par over the period to 2027. Movement in foreign exchange during the period decreased the carrying value by £13 million (2018: £6 million). At 31 December 2019, the carrying value of the loan was £334 million (2018: £343 million).

b) On 12 December 2018, the Company entered into a new £825 million loan agreement with Old PGH as consideration for the substitution of the Company as issuer of the Tier 1 Notes and €500 million Tier 2 notes. The loan accrued interest at a rate of 6 month LIBOR plus 1.22% and matured on 31 December 2023. On 18 June 2019 the loan was settled as part of the consideration for the Company's acquisition of SLAL from Old PGH (see note 9).

c) On 18 June 2019, the Company was assigned an interest free facility arrangement with Phoenix Group Employee Benefit Trust ('EBT') of £6 million. During 2019, an additional £4 million was drawn down against this facility. The loan is fully recoverable until the point the awards held in the EBT vest to the participants, at which point the loan is reviewed for impairment. Any impairments are determined by comparing the carrying value to the estimated recoverable amount of the loan. Following the vesting of awards in 2019 £3 million of the loan has been written off. At 31 December 2019, the carrying value of the loan was £7 million.

None of the loans are considered to be past due.

For the purposes of the additional fair value disclosures for assets recognised at amortised cost, all loans and deposits are categorised as Level 3 financial instruments. The fair value of loans and deposits with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Details of the factors considered in determination of fair value are included in note E2 to the consolidated financial statements.

11. FINANCIAL ASSETS

	2019 £m	2018 £m
Financial assets at fair value through profit or loss:		
Derivatives	**5**	–
Equities	**2**	–
Debt securities	**43**	–
Collective investment schemes	**200**	–
	250	–
Amounts due after 12 months	**43**	–

Determination of Fair Value and Fair Value Hierarchy of Financial Assets

Details of the factors considered in determination of the fair value are included in note E2 to the consolidated financial statements.

Year ended 31 December 2019	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets at fair value through profit or loss:				
Derivatives	**–**	**5**	**–**	**5**
Equities	**–**	**–**	**2**	**2**
Debt securities	**–**	**–**	**43**	**43**
Collective investment schemes	**200**	**–**	**–**	**200**
	200	**5**	**45**	**250**

There were no transfers between levels in 2019.

Level 3 Financial Instrument Sensitivities

The investment in equity and debt securities is in respect of equity and debt holdings in a property investment structure which was transferred to the Company via an in-specie dividend received from Old PGH during 2019.

The structure is valued as a whole on a discounted cash flow basis and allocated to the debt and equity components in order of priority. The valuation is sensitive to the discount rate applied. A decrease in the discount rate of 175bps would increase the value by £9 million whilst an increase of 200bps would decrease the value by £6 million.

12. DEFERRED TAX

The accounting policy for tax assets and liabilities is included in note G8 to the consolidated financial statements.

Movement in Deferred Tax Asset

	1 January 2019 £m	Credit for the year £m	31 December 2019 £m
Provisions and other temporary differences	–	15	15

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 the Company.

13. CASH AND CASH EQUIVALENTS

The accounting policy for cash and cash equivalents is included in note G6 to the consolidated financial statements.

	2019 £m	2018 £m
Bank and cash balances	45	1

14. CASH FLOWS FROM OPERATING ACTIVITIES

	2019 £m	2018 £m
Profit/(loss) for the period before tax	1,598	(2)
Non-cash movements in profit/(loss) for the period before tax:		
Dividend income from other Group entities	(5,640)	–
Impairment of investment in subsidiary	4,146	–
Impairment of loan due from subsidiary	3	–
Investment income	(79)	(5)
Finance costs	103	5
Fair value losses/(gains) on financial assets	19	(2)
Foreign exchange movement on borrowings at amortised cost	(37)	(2)
Share-based payment charge	11	–
Increase in investment assets	(236)	–
Net decrease in working capital	523	6
Cash generated by operations	411	–

15. CAPITAL AND RISK MANAGEMENT

The Company's capital comprises share capital, the Tier 1 Notes and all reserves as calculated in accordance with IFRSs, as set out in the statement of changes in equity. Under English company law, dividends must be paid from distributable profits. As the ultimate parent undertaking of the Group, the Company manages its capital to ensure that it has sufficient distributable profits to pay dividends in accordance with its dividend policy.

At 31 December 2019, total capital was £5,849 million (2018: £4,554 million). The movement in capital in the period comprises the total comprehensive income for the period attributable to owners of £1,643 million (2018: £3 million expense), dividends paid of £338 million (2018: £nil), coupon paid on Tier 1 Notes, net of tax relief of £23 million (2018: £nil), credit to equity for equity-settled share-based payments of £11 million (2018: £nil), issue of ordinary share capital of £2 million (2018: £nil), proceeds from the issue of shares under the scheme of arrangement of £nil (2018: 4,146 million) and the substituted Tier 1 Notes of £nil (2018: £411 million).

In addition, the Group also manages its capital on a regulatory basis as described in note I3 to the consolidated financial statements.

The principal risks and uncertainties facing the Company are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company has hedged the currency risk on its foreign currency hybrid debt (US $500 million Tier 2 bonds and €500 million Tier 2 notes) through a US $500 million internal loan and a €500 million internal cross currency swap.

Details of the Group's financial risk management policies are outlined in note E6 to the consolidated financial statements.

Credit Risk Management Practices

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The table below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

2019	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and deposits (note 10)	**N/A**	**Performing**	**12 month ECL**	**1,227**	**–**	**1,227**
Other amounts due from Group entities (note 18)	**N/A**	**Performing**	**12 month ECL**	**198**	**–**	**198**
Cash and cash equivalents (note 13)	**A**	**N/A**	**12 month ECL**	**45**	**–**	**45**

2018	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and deposits (note 10)	N/A	Performing	12 month ECL	2,056	–	2,056
Other amounts due from Group entities (note 18)	N/A	Performing	12 month ECL	20	–	20
Cash and cash equivalents (note 13)	A	N/A	12 month ECL	1	–	1

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort to assess whether there has been a significant increase in risk since initial recognition. This includes quantitative and qualitative information and also forward-looking analysis.

Loans and deposits – The Company is exposed to credit risk relating to loans and deposits from other Group companies, which are considered low risk. Given their low risk, the loss allowance has been set at less than £1 million. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing whether there have been any historic defaults, by reviewing the going concern assessment of the borrower and the ability of the Group to prevent a default by providing a capital or cash injection. Specific considerations for the loan to the EBT loan are discussed in note 10.

Amounts due from other Group entities – The credit risk from activities undertaken in the normal course of business is considered to be extremely low risk. Given their low risk, the loss allowance has been set at less than £1 million. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing past credit impairments, history of defaults and the long-term stability of the Group.

Cash and cash equivalents – The Company's cash and cash equivalents are held with bank and financial institution counterparties, which have investment grade 'A' credit ratings. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and there being no history of default, and therefore the impact to the net carrying amount shown in the table above is not material.

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed into liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

16. SHARE-BASED PAYMENTS

For detailed information on the long-term incentive plans, sharesave schemes and deferred bonus share schemes refer to note I1 in the consolidated financial statements.

17. DIRECTORS' REMUNERATION

Details of the remuneration of the Directors of Phoenix Group Holdings plc is included in section B of the Directors' Remuneration Report on pages 114 to 130 of the Annual Report and Accounts.

18. RELATED PARTY TRANSACTIONS

The Company has related party transactions with Group entities and its key management personnel. Details of the total compensation of key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the Executive and Non-Executive Directors, are included in note I4 to the consolidated financial statements.

On 31 August 2018, SLA plc took a 19.98% equity stake in the Enlarged Group, and as a result became a related party of the Company. SLA plc is considered to have significant influence over the Group due to its equity stake and representation on the Board.

During the year ended 31 December 2019 the Company entered into the following transactions with Group entities and SLA plc:

	2019 £m	2018 £m
Dividend income from other Group entities	**5,989**	–
Interest income from other Group entities	**77**	5
	6,066	9
Impairment of investment in subsidiary	**4,146**	–
Impairment of loan due from subsidiary	**3**	–
Unrealised loss on internal cross currency swap	**27**	4
Expense to other Group entities	**235**	–
Interest expense to other Group entities	**12**	–
	4,423	4
Dividends paid to SLA plc	**67**	–

Amounts due from related parties at the end of the year:

	2019 £m	2018 £m
Loans due from Group entities	**1,227**	2,056
Forward currency swap	**3**	–
Other amounts due from Group entities	**198**	20
	1,428	2,076
Amount due for settlement after 12 months	**1,227**	2,056

Amounts due to related parties at the end of the year:

	2019 £m	2018 £m
Loans due to Group entities	**288**	1
Cross currency swap	**31**	1
Other amounts due to Group entities	**533**	–
	852	2
Amount due for settlement after 12 months	**288**	–

19. AUDITOR'S REMUNERATION

Details of auditor's remuneration, for Phoenix Group Holdings plc and its subsidiaries, is included in note C4 to the consolidated financial statements.

20. EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting date are included in note I7 to the consolidated financial statements.

N LYONS
C BANNISTER
J MCCONVILLE
A BRIGGS
A BARBOUR
C FLEMING
K GREEN
W MAYALL
J POLLOCK
B RICHARDS
N SHOTT
K SORENSON
M TUMILTY

06 March 2020

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies, and it is stated net of derivative liabilities. It excludes other Group assets such as cash held in the holding and management service companies and the assets held by the non-controlling interests in consolidated collective investment schemes.

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

31 December 2019

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	3,486	2,009	4,788	6,391	16,674
Debt securities – gilts	3,905	339	14,167	4,870	23,281
Debt securities – bonds	13,744	1,882	24,174	30,242	70,042
Equity securities	145	48	15,962	72,959	89,114
Property investments	92	37	1,890	5,335	7,354
Other investments[4]	3,508	386	3,738	9,897	17,529
At 31 December 2019	**24,880**	**4,701**	**64,719**	**129,694**	**223,994**
Cash and cash equivalents in Group holding companies					275
Cash and financial assets in other Group companies					616
Financial assets held by the non-controlling interest in consolidated collective investment schemes					3,661
Total Group consolidated assets					**228,546**
Comprised of:					
Investment property					5,943
Financial assets					218,871
Cash and cash equivalents					4,466
Derivative liabilities					(734)
					228,546

1 Includes assets where shareholders of the life companies bear the investment risk.

2 Includes assets where policyholders bear most of the investment risk.

3 This information is presented on a look through basis to underlying funds where available.

4 Includes equity release mortgages of £2,781 million, commercial real estate loans of £388 million, income strips of £690 million, policy loans of £10 million, other loans of £284 million, net derivative assets of £3,976 million, reinsurers' share of investment contracts of £8,881 million and other investments of £519 million.

31 December 2018 restated[1]

Carrying value	Shareholder and non-profit funds[2] £m	Participating supported[2] £m	Participating non-supported[3] £m	Unit-linked[3] £m	Total[4] £m
Cash and cash equivalents	2,522	2,304	5,046	6,840	16,712
Debt securities – gilts	3,058	378	15,841	5,806	25,083
Debt securities – bonds	12,906	1,633	22,386	29,322	66,247
Equity securities	129	45	13,910	65,618	79,702
Property investments	101	44	2,046	6,059	8,250
Other investments[5]	2,949	192	2,844	9,185	15,170
At 31 December 2018	21,665	4,596	62,073	122,830	211,164
Cash and cash equivalents in Group holding companies					346
Cash and financial assets in other Group companies					674
Financial assets held by the non-controlling interest in consolidated collective investment schemes					2,990
Total Group consolidated assets					215,174
Comprised of:					
Investment property					6,520
Financial assets					204,821
Cash and cash equivalents					4,926
Derivative liabilities					(1,093)
					215,174

1 Following the acquisition of the Standard Life Assurance businesses in 2018, the Group has revised the presentation of certain balances within the statement of consolidated financial position. Total Group consolidated assets has been restated to include £244 million of accrued interest previously reported in prepayments and accrued income. In addition, £2,914 million of unit-linked assets previously reported as collective investments schemes and presented on a look-through basis within the disclosure has been reclassified to reinsurers' share of investment contract liabilities.

2 Includes assets where shareholders of the life companies bear the investment risk.

3 Includes assets where policyholders bear most of the investment risk.

4 This information is presented on a look through basis to underlying funds where available.

5 Includes equity release mortgages of £2,020 million, commercial real estate loans of £449 million, income strips of £654 million, policy loans of £9 million, other loans of £170 million, net derivative assets of £2,825 million, reinsurers' share of investment contracts of £8,331 million and other investments of £712 million.

The following table provides a reconciliation of the total life company assets to the Assets under Administration ('AUA') as at 31 December 2019 detailed in the Business Review on page 41:

	2019 £bn	2018 restated £bn
Total Life Company assets	**224.0**	211.2
Off-balance sheet AUA[1]	**35.1**	31.1
Less: Standard Life Trustee Investment Plan assets[2]	**(10.8)**	(15.8)
Assets Under Administration	**248.3**	226.5

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

2 Assets held within the Standard Life Trustee Investment Plan product are excluded from AUA as materially all profits accrue to third party investment managers.

The following table analyses by type the debt securities of the life companies:

31 December 2019

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	**3,905**	**339**	**14,167**	**4,870**	**23,281**
Other government and supranational[1]	**1,548**	**300**	**9,729**	**8,737**	**20,314**
Corporate – financial institutions	**5,867**	**577**	**8,555**	**7,948**	**22,947**
Corporate – other	**5,750**	**580**	**5,273**	**13,387**	**24,990**
Asset backed securities ('ABS')	**579**	**425**	**617**	**170**	**1,791**
At 31 December 2019	**17,649**	**2,221**	**38,341**	**35,112**	**93,323**

31 December 2018 restated

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	3,058	378	15,841	5,806	25,083
Other government and supranational[1]	1,473	309	9,335	9,669	20,786
Corporate – financial institutions	5,200	650	7,631	10,348	23,829
Corporate – other	5,665	168	4,838	9,141	19,812
Asset backed securities ('ABS')	568	506	582	164	1,820
At 31 December 2018	15,964	2,011	38,227	35,128	91,330

1 Includes debt issued by governments; public and statutory bodies; government backed institutions and supranationals.

The life companies' debt portfolio was £93.3 billion at 31 December 2019 (2018: £91.3 billion). Shareholders had direct exposure to £19.9 billion (2018: 18.0 billion) of these assets (including supported participating funds), of which 99.8% (2018: 99.5%) of rated securities were investment grade. The shareholders' credit risk exposure to the non-supported participating funds is primarily limited to the shareholders' share of future bonuses. Shareholders' credit risk exposure to the unit-linked funds is limited to the level of asset management fee, which is dependent on the underlying assets.

The following table sets out a breakdown of the life companies' sovereign and supranational debt security holdings by country:

31 December 2019

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**4,452**	**385**	**14,411**	**4,898**	**24,146**
Supranationals	**544**	**73**	**320**	**41**	**978**
USA	**–**	**3**	**52**	**1,859**	**1,914**
Germany	**155**	**54**	**3,397**	**324**	**3,930**
France	**59**	**33**	**2,559**	**450**	**3,101**
Netherlands	**23**	**17**	**360**	**159**	**559**
Italy	**–**	**–**	**–**	**550**	**550**
Greece	**–**	**–**	**28**	**19**	**47**
Spain	**–**	**–**	**–**	**380**	**380**
Belgium	**5**	**1**	**783**	**89**	**878**
Other – non-Eurozone	**183**	**60**	**1,340**	**4,521**	**6,104**
Other – Eurozone	**32**	**13**	**646**	**317**	**1,008**
At 31 December 2019	**5,453**	**639**	**23,896**	**13,607**	**43,595**

31 December 2018 restated

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	3,443	418	16,051	5,844	25,756
Supranationals	579	84	335	52	1,050
USA	6	3	125	3,433	3,567
Germany	70	62	3,438	386	3,956
France	72	39	2,455	340	2,906
Netherlands	28	19	345	106	498
Italy	46	–	–	340	386
Greece	–	–	12	46	58
Spain	–	–	–	144	144
Belgium	5	1	710	36	752
Other – non-Eurozone	246	51	1,045	4,563	5,905
Other – Eurozone	36	10	659	79	784
Indirectly held debt securities	–	–	1	106	107
At 31 December 2018	4,531	687	25,176	15,475	45,869

Sovereign and supranational debt represented 31% (2018: 29%) of the debt portfolio in respect of shareholder exposure, or £6.1 billion, at 31 December 2019 (2018: £5.2 billion). The vast majority of the life companies' exposure to sovereign and supranational debt holdings is to UK gilts.

All of the life companies' debt securities are held at fair value through profit or loss under IAS 39, and therefore already reflect any reduction in value between the date of purchase and the reporting date.

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

The following table sets out a breakdown of the life companies' financial institution corporate debt security holdings by country:

31 December 2019

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**3,055**	**167**	**3,184**	**1,962**	**8,368**
USA	**846**	**80**	**1,017**	**862**	**2,805**
Germany	**139**	**4**	**556**	**415**	**1,114**
France	**203**	**43**	**1,089**	**967**	**2,302**
Netherlands	**392**	**36**	**244**	**342**	**1,014**
Portugal	**–**	**–**	**3**	**11**	**14**
Italy	**30**	**–**	**42**	**37**	**109**
Ireland	**–**	**–**	**25**	**19**	**44**
Spain	**64**	**–**	**150**	**217**	**431**
Luxembourg	**–**	**–**	**34**	**15**	**49**
Belgium	**12**	**3**	**3**	**13**	**31**
Other – non-Eurozone	**1,044**	**215**	**1,942**	**2,880**	**6,081**
Other – Eurozone	**82**	**29**	**266**	**208**	**585**
At 31 December 2019	**5,867**	**577**	**8,555**	**7,948**	**22,947**

31 December 2018 restated

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	2,699	163	3,017	1,917	7,796
USA	758	46	934	1,137	2,875
Germany	127	13	410	567	1,117
France	174	52	734	1,405	2,365
Netherlands	412	42	377	745	1,576
Italy	29	–	44	43	116
Ireland	–	–	31	42	73
Spain	58	–	91	209	358
Luxembourg	1	–	18	11	30
Belgium	6	20	84	80	190
Other – non-Eurozone	883	299	1,723	4,073	6,978
Other – Eurozone	53	15	168	119	355
At 31 December 2018	5,200	650	7,631	10,348	23,829

The life companies had £94 million (2018: £87 million) shareholder exposure to financial institution corporate debt of the Peripheral Eurozone, defined as Portugal, Italy, Ireland, Greece, and Spain, at 31 December 2019. The £6,444 million (2018: £5,850 million) total shareholder exposure to financial institution corporate debt comprised £3,376 million (2018: £3,107 million) senior debt, £2,567 million (2018: £2,249 million) Tier 1 debt and £501 million (2018: £494 million) Tier 2 debt.

The £6,444 million shareholder exposure to financial institution corporate debt comprised £3,673 million (2018: £3,535 million) bank debt and £2,771 million (2018: £2,315 million) non-bank debt.

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

The following table sets out a breakdown of the life companies' corporate – other debt security holdings by country:

31 December 2019

Analysis of corporate – other debt security holdings by country	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
UK	**2,742**	**56**	**2,371**	**3,411**	**8,580**
USA	**828**	**26**	**873**	**2,757**	**4,484**
Germany	**423**	**45**	**456**	**913**	**1,837**
France	**580**	**11**	**646**	**802**	**2,039**
Netherlands	**103**	**–**	**51**	**286**	**440**
Italy	**113**	**–**	**109**	**165**	**387**
Ireland	**11**	**–**	**15**	**51**	**77**
Spain	**84**	**1**	**77**	**136**	**298**
Luxembourg	**–**	**–**	**9**	**80**	**89**
Belgium	**115**	**–**	**103**	**145**	**363**
Other – non-Eurozone	**722**	**6**	**560**	**2,445**	**3,733**
Other – Eurozone	**29**	**435**	**3**	**86**	**553**
Indirectly held debt securities	**–**	**–**	**–**	**2,110**	**2,110**
At 31 December 2019	**5,750**	**580**	**5,273**	**13,387**	**24,990**

31 December 2018 restated

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	2,502	55	2,200	2,499	7,256
USA	877	32	681	2,066	3,656
Germany	509	64	437	702	1,712
France	547	5	472	475	1,499
Netherlands	112	–	79	123	314
Italy	120	1	73	109	303
Ireland	11	–	23	46	80
Spain	95	1	62	95	253
Luxembourg	–	–	4	50	54
Belgium	123	1	97	120	341
Other – non-Eurozone	758	9	626	1,230	2,623
Other – Eurozone	11	–	2	64	77
Indirectly held debt securities	–	–	82	1,562	1,644
At 31 December 2018	5,665	168	4,838	9,141	19,812

The following table sets out a breakdown of the life companies' ABS holdings by country:

31 December 2019

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**523**	**244**	**481**	**136**	**1,384**
USA	**–**	**–**	**2**	**3**	**5**
Germany	**–**	**21**	**–**	**–**	**21**
France	**–**	**35**	**10**	**2**	**47**
Netherlands	**8**	**58**	**30**	**1**	**97**
Italy	**–**	**–**	**11**	**–**	**11**
Ireland	**26**	**1**	**39**	**2**	**68**
Spain	**–**	**8**	**–**	**–**	**8**
Luxembourg	**–**	**49**	**10**	**7**	**66**
Other – non-Eurozone	**22**	**8**	**34**	**19**	**83**
Other – Eurozone	**–**	**1**	**–**	**–**	**1**
At 31 December 2019	**579**	**425**	**617**	**170**	**1,791**

31 December 2018 restated

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	510	317	424	115	1,366
USA	–	–	2	1	3
Germany	–	29	–	–	29
France	–	33	8	1	42
Netherlands	8	64	45	12	129
Italy	–	–	5	–	5
Ireland	27	1	32	2	62
Spain	–	17	–	–	17
Luxembourg	–	34	17	5	56
Other – non-Eurozone	23	11	49	22	105
Indirectly held debt securities	–	–	–	6	6
At 31 December 2018	568	506	582	164	1,820

The following table sets out the credit rating analysis of the debt portfolio:

31 December 2019

Credit rating analysis of debt portfolio	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
AAA	**1,502**	**686**	**5,820**	**3,322**	**11,330**
AA	**6,491**	**1,163**	**20,578**	**7,354**	**35,586**
A	**6,498**	**352**	**6,188**	**6,103**	**19,141**
BBB	**2,795**	**3**	**4,734**	**5,758**	**13,290**
BB	**–**	**–**	**221**	**1,139**	**1,360**
B and below	**30**	**–**	**413**	**902**	**1,345**
Non-rated	**333**	**17**	**387**	**1,854**	**2,591**
Indirectly held debt securities	**–**	**–**	**–**	**8,680**	**8,680**
At 31 December 2019	**17,649**	**2,221**	**38,341**	**35,112**	**93,323**

96.7% of rated securities were investment grade at 31 December 2019 (2018: 94.7%). The percentage of rated securities that were investment grade in relation to the shareholder and policyholders' funds were 99.8% and 95.7% respectively (2018: 99.5% and 93.4% respectively).

31 December 2018 restated

Credit rating analysis of debt portfolio	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
AAA	1,505	791	5,633	4,737	12,666
AA	5,230	765	21,898	8,413	36,306
A	5,921	364	5,453	7,074	18,812
BBB	2,920	38	3,990	4,788	11,736
BB	15	3	188	59	265
B and below	71	–	386	3,733	4,190
Non-rated	302	50	595	1,199	2,146
Indirectly held debt securities	–	–	84	5,125	5,209
At 31 December 2018	15,964	2,011	38,227	35,128	91,330

ADDITIONAL CAPITAL DISCLOSURES

PGH PLC SOLVENCY II SURPLUS

The PGH plc surplus at 31 December 2019 is £3.1 billion (2018: £3.2 billion).

	31 December 2019 Estimated £bn	31 December 2018 £bn
Own Funds	**10.8**	10.3
SCR	**(7.7)**	(7.1)
Surplus	**3.1**	3.2

CALCULATION OF GROUP SOLVENCY

The Solvency II regulations set out two methods for calculating Group solvency, 'Method 1' (being the default accounting based consolidation method) and 'Method 2' (the deduction and aggregation method).

Under Method 2, the solo Own Funds are aggregated rather than consolidated on a line by line basis. The SCR is also aggregated, with no allowance for diversification. Method 2 is used for all entities within the Standard Life Assurance businesses acquired and Method 1 is used for all other entities of the Group. The Group has approval to use a combination of Methods 1 and 2 for consolidating its Group solvency results.

COMPOSITION OF OWN FUNDS

Own Funds items are classified into different Tiers based on the features of the specific items and the extent to which they possess the following characteristics, with Tier 1 being the highest quality:

- availability to be called up on demand to fully absorb losses on a going-concern basis, as well as in the case of winding-up ('permanent availability'); and
- in the case of winding-up, the total amount that is available to absorb losses before repayment to the holder until all obligations to policyholders and other beneficiaries have been met ('subordination').

PGH plc's total Own Funds are analysed by Tier as follows:

	31 December 2019 Estimated £bn	31 December 2018 £bn
Tier 1 – Unrestricted	**8.3**	7.8
Tier 1 – Restricted	**0.5**	0.5
Tier 2	**1.5**	1.5
Tier 3	**0.5**	0.5
Total Own Funds	**10.8**	10.3

PGH plc's unrestricted Tier 1 capital accounts for 77% (2018: 76%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

Restricted Tier 1 capital comprises the Tier 1 Notes issued in April 2018, the terms of which enable it to qualify as restricted Tier 1 capital for regulatory reporting purposes. There is no impact to the treatment of the restricted Tier 1 capital in the Group solvency calculation as a result of the PRA policy statement PS4/19 'Solvency II: Adjusting for the reduction of loss absorbency where own fund instruments are taxed on write down', issued during the period.

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

Tier 3 items include the Tier 3 subordinated notes of £0.4 billion (2018: £0.4 billion) and the deferred tax asset of £0.1 billion (2018: £0.1 billion).

BREAKDOWN OF SCR

The Group operates two PRA approved Internal Models, a Phoenix Internal Model covering all the pre-acquisition Phoenix entities and a Standard Life Internal Model which covers the acquired Standard Life Assurance entities, with the exception of the Irish entity, Standard Life International. Standard Life International calculates its capital requirements in accordance with the Standard Formula. An analysis of the pre-diversified SCR of PGH plc is presented below:

	31 December 2019 Estimated		31 December 2018	
	Phoenix Internal Model %	**Standard Life Internal Model %**	Phoenix Internal Model %	Standard Life Internal Model %
Longevity	**26**	**16**	26	15
Credit	**19**	**12**	18	13
Persistency	**12**	**28**	10	26
Interest rates	**8**	**5**	11	10
Operational	**6**	**9**	7	8
Swap spreads	**2**	**1**	2	1
Property	**12**	**1**	9	1
Other market risks	**5**	**15**	7	15
Other non-market risks	**10**	**13**	10	11
Total pre-diversified SCR	**100**	**100**	100	100

The principal risks of the Group are described in detail in note E6 and F4 in the IFRS consolidated financial statements.

MINIMUM CAPITAL REQUIREMENTS

Minimum Capital Requirement ('MCR') is the minimum amount of capital an insurer is required to hold below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations. For Groups this is referred to as the Minimum Consolidated Group SCR ('MGSCR').

The MCR is calculated according to a formula prescribed by the Solvency II regulations and is subject to a floor of 25% of the SCR or €3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk.

The MGSCR represents the sum of the underlying insurance companies' MCRs in respect of the Method 1 part of the Group.

The Eligible Own Funds to cover the MGSCR is subject to quantitative limits as shown below:

- the Eligible amounts of Tier 1 items should be at least 80% of the MGSCR; and
- the Eligible amounts of Tier 2 items shall not exceed 20% of the MGSCR.

PGH plc's MGSCR at 31 December 2019 is £1.1 billion (2018: £1.0 billion).

PGH plc's Method 1 Eligible Own Funds to cover MGSCR is £4.3 billion (2018: £4.2 billion) leaving an excess of Eligible Own Funds over MGSCR of £3.2 billion (2018: £3.2 billion), which translates to an MGSCR coverage ratio of 386% (2018: 408%).

The MCR for the Method 2 part of the Group is £1.2 billion (2018: £1.1 billion), with Eligible Own Funds of £4.9 billion (2018: £4.2 billion), leaving an excess of Eligible Own Funds over MCR of £3.7 billion (2018: £3.1 billion), which translates to an MCR coverage ratio of 394% (2018: 377%).

ALTERNATIVE PERFORMANCE MEASURES

The Group assesses its financial performance based on a number of measures. Some measures are management derived measures of historic or future financial performance, position or cash flows of the Group; which are not defined or specified in accordance with relevant financial reporting frameworks such as International Financial Reporting Standards ('IFRS') or Solvency II. These measures are known as Alternative Performance Measures ('APMS').

APMs are disclosed to provide stakeholders with further helpful information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to IFRS and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

A list of the APMs used in our results as well as their definitions, why they are used and, if applicable, how they can be reconciled to the nearest equivalent GAAP measure is provided below. Further discussion of these measures can be found in the business review from page 38 and the definitions of all APMs are included in the glossary on pages 268 to 270.

APM	Definition	Why is this measure used	Reconciliation to financial statements
Assets under Administration	The Group's Assets under Administration ('AUA') represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets. It includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 256.
Financial leverage ratio	Financial leverage is calculated by Phoenix (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, the unallocated surplus and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's IFRS consolidated statement of financial position on pages 149 and 150 and the analysis of borrowings note on page 184.
Incremental long-term cash generation	Incremental long-term cash generation represents the operating companies' cash generation that is expected to arise in future years as a result of new business transacted in the current period within our UK Open and Europe segments, and from the writing of bulk purchase annuities within our Heritage segment. It excludes any costs associated with the acquisition of the new business.	This measure provides an indication of the Group's performance in delivering new business growth to offset the impact of run-off of the Group's Heritage business and to bring sustainability to future cash generation.	Incremental long-term cash generation is not directly reconcilable to the financial statements as it relates to cash generation expected to arise in the future.
New business contribution – UK Open and Europe	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure provides an assessment of the day 1 value arising on the writing of new business in the UK Open and Europe segments, and is stated after applicable taxation and acquisition costs.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement. Further analysis is provided on page 41.

APM	Definition	Why is this measure used	Reconciliation to financial statements
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of consolidated cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS statement of consolidated cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on pages 39 to 40 and a breakdown of the Group's cash position by type of entity is provided in the additional life company asset disclosures section on page 255.
Operating profit	Operating profit is a financial performance measure based on expected long-term investment returns. It is stated before tax and non-operating items including amortisation and impairments of intangibles, finance costs attributable to owners and other non-operating items which in the Director's view should be excluded by their nature or incidence to enable a full understanding of financial performance. Further details of the components of this measure and the assumptions inherent in the calculation of the long-term investment return are included in note B1.2 to the IFRS consolidated financial statements.	This measure provides a more representative view of the Group's performance than the IFRS result after tax as it provides long-term performance information unaffected by short-term economic volatility and one-off items, and is stated net of policyholder finance charges and tax. It helps give stakeholders a better understanding of the underlying performance of the Group by identifying and analysing non-operating items.	A reconciliation of operating profit to the IFRS result before tax attributable to owners is included in the business review on page 45 and in the primary financial statements on page 161.
Life Company Free Surplus	The Solvency II surplus of the life companies that is in excess of their Board approved capital management policies.	This figure provides a view of the level of surplus capital in the Life companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section page 44 for further analysis of the solvency positions of the life companies.
Shareholder Capital Coverage Ratio	Represents total Eligible Own Funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR.	The unsupported with-profit funds and Group pension funds do not contribute to the Group Solvency II surplus. However, the inclusion of related Own Funds and SCR amounts dampens the implied Solvency II capital ratio. The Group therefore focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group.	Further details of the Shareholder Capital Coverage Ratio and its calculation are included in the business review on page 38 and the additional capital disclosures section on page 262.

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

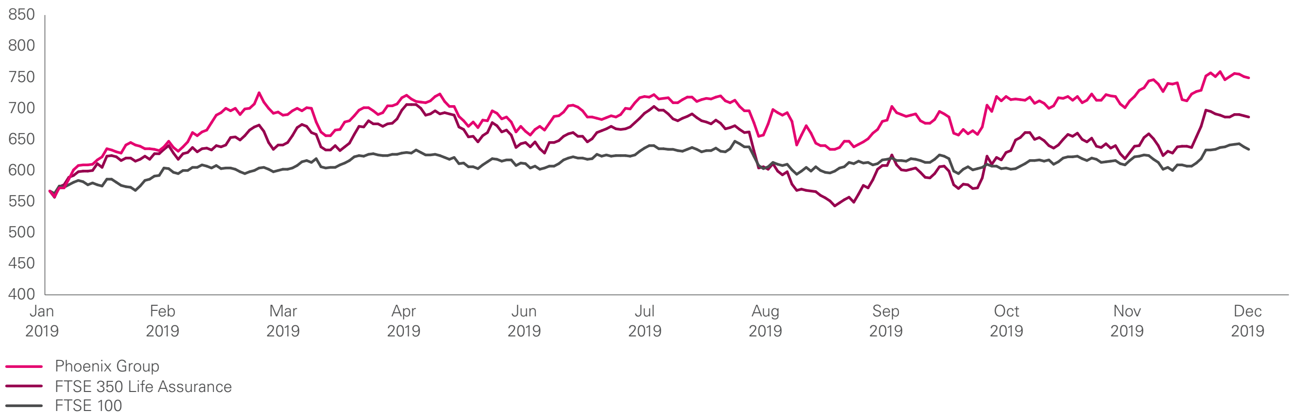
Our Annual General Meeting ('AGM') will be held on 15 May 2020 at 10:00am.

The voting results for our 2020 AGM, including proxy votes and votes withheld, will be available on the Group's website shortly after the meeting.

SHARE PRICE PERFORMANCE

Phoenix Group Holdings plc share price performance

Price pence per share (rebased to Phoenix)



SHAREHOLDER PROFILE AS AT 31 DECEMBER 2019

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	**546**	**26.92**	**265,325**	**0.04**
1,001–5,000	**676**	**33.33**	**1,653,314**	**0.23**
5,001–10,000	**161**	**7.94**	**1,134,640**	**0.16**
10,001–250,000	**410**	**20.22**	**29,387,930**	**4.07**
250,001–500,000	**75**	**3.70**	**27,125,800**	**3.76**
500,001 and above	**160**	**7.89**	**661,947,935**	**91.74**
Total	**2,028**		**721,514,944**	

SHAREHOLDER SERVICES

Managing your shareholding

Our registrar, Computershare, maintains the Company's register of members. Shareholders may request a hard copy of this Annual Report from our registrar and if you have any further queries in respect of your shareholding please contact them directly using the contact details set out below.

Registrar details

Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ

Shareholder helpline number +44 (0) 370 702 0181
Fax number +44 (0) 370 703 6116
www.investorcentre.co.uk/contactus

Dividend mandates

Shareholders may find it convenient to have their dividends paid directly to their bank or building society account.

Access Computershare's web-based enquiry service www.investorcentre.co.uk to download forms such as a dividend mandate form or submit dividend mandate details online; view details of your Phoenix Group shareholding and recent dividend payments; update your address details and register for shareholder electronic communications to receive notification of Phoenix Group shareholder mailings by email.

Alternatively, contact Computershare using the details above.

Scrip dividend alternative

The Company does not currently offer a scrip dividend alternative.

Warning to shareholders

Over recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company.

If you receive any unsolicited investment advice:

- make sure you get the correct name of the person and organisation;
- check that they are properly authorised by the Financial Conduct Authority ('FCA') before getting involved by visiting www.fca.org.uk/firms/systems-reporting/register;
- report the matter to the FCA by calling the FCA Consumer Helpline on 0800 111 6768; and
- if the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme ('FSCS'). The FCA can also be contacted by completing an online form available at www.fca.org.uk/consumers/report-scam-unauthorised-firm. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website available at www.fca.org.uk/consumers.

SHARE PRICE

You can access the current share price of Phoenix Group Holdings plc on the Group's website together with electronic copies of the Group's financial reports and presentations at www.thephoenixgroup.com/investor-relations.aspx.

ORDINARY SHARES – 2019 FINAL DIVIDEND

Ex-dividend date	**2 April 2020**
Record date	**3 April 2020**
Payment date for the recommended final dividend	**19 May 2020**

GROUP FINANCIAL CALENDAR FOR 2020

Annual General Meeting	**15 May 2020**
Announcement of unaudited six months' Interim Results	**6 August 2020**

GLOSSARY

ABBEY LIFE	The companies comprising of Abbey Life Assurance Company Limited, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited
ABS	Asset Backed Securities – A collateralised security whose value and income payments are derived from a specified pool of underlying assets
ACQUIRED VALUE IN FORCE ('AVIF')	The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of, or investment in, a business
ALM	Asset Liability Management – Management of mismatches between assets and liabilities within risk appetite
ALTERNATIVE PERFORMANCE MEASURE	An Alternative Performance Measure ('APM') is a financial measure of historic or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations. The Group uses a range of these metrics to provide a better understanding of the underlying performance of the Group. All APMs are defined within this glossary and the APM section on page 264
ANNUITY POLICY	A policy that pays out regular benefit amounts, either immediately and for the remainder of a policyholder's lifetime (immediate annuity), or deferred to commence at some future date (deferred annuity)
ASSET MANAGEMENT	The management of assets using a structured approach to guide the act of acquiring and disposing of assets, with the objective of meeting defined investment goals and maximising value for investors, including policyholders
ASSETS UNDER ADMINISTRATION	Assets administered by or on behalf of the Group, covering both policyholder funds and shareholder assets. This includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group but for which beneficial ownership resides with customers.
BREXIT	The vote by the people of the United Kingdom to leave the EU in the referendum held on 23 June 2016
CAGR	Compound annual growth rate, or CAGR, is the mean annual growth rate of an investment over a specified period of time longer than one year
CLOSED LIFE FUND	A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders
EBT	Employee Benefit Trust – A trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards. The Company's EBT is the Phoenix Group Holdings plc Employee Benefit Trust
ECONOMIC ASSUMPTIONS	Assumptions related to future interest rates, inflation, market value movements and tax
EEA	European Economic Area – Established on 1 January 1994 and is an agreement between Norway, Iceland, Liechtenstein and the European Union. It allows these countries to participate in the EU's single market without joining the EU
ENLARGED GROUP	The Phoenix Group including the acquired Standard Life Assurance businesses
EXPERIENCE VARIANCES	Current period differences between the actual experience incurred and the assumptions used in the calculation of IFRS insurance liabilities
FINANCIAL LEVERAGE	Calculated by Phoenix using Fitch Ratings stated methodology as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent adjusted to exclude goodwill, the unallocated surplus and the Tier 1 Notes
FINANCIAL REPORTING COUNCIL	The UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment
FREE SURPLUS	The amount of capital held in life companies in excess of that needed to support their regulatory Solvency Capital Requirement, plus the capital required under the Board approved capital management policy
FCA	Financial Conduct Authority – The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority ('PRA'), such as asset managers and independent financial advisers
FOS	Financial Ombudsman Service – An ombudsman established in 2000, and given statutory powers in 2001 by the Financial Services and Markets Act 2000, to help settle disputes between consumers and UK-based businesses providing financial services

GAR	Guaranteed Annuity Rate – A rate available to certain pension policyholders to acquire an annuity at a contractually guaranteed conversion rate
HMRC	HM Revenue and Customs
HOLDING COMPANIES	Refers to Phoenix Group Holdings plc, Phoenix Group Holdings, PGH Capital plc, Phoenix Life Holdings Limited, Pearl Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Group Holdings (No. 1) Limited, PGH (LCA) Limited, PGH (LCB) Limited and Pearl Life Holdings Limited
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards – Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board
INCREMENTAL LONG-TERM CASH GENERATION	New business contribution after adjustment to add back 'day 1' acquisition costs
IN-FORCE	Long-term business written before the period end and which has not terminated before the period end
INHERITED ESTATE	The assets of the long-term with-profit funds less the realistic reserves for non-profit policies written into the non-profit fund, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees
LIBOR	London Interbank Offer Rate – The average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another
LTIP	Long-Term Incentive Plan – The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to Group strategy
MINIMUM CAPITAL REQUIREMENTS ('MCR')	MCR is the minimum amount of capital that the Group needs to hold to cover its risks under the Solvency II regulatory framework
MSA	Management Services Agreement – Contracts that exist between Phoenix Life and management services companies or between management services companies and their outsource partners
NEW BUSINESS CONTRIBUTION	Represents the increase in Solvency II shareholder Own Funds arising from new business written in the year (net of associated tax), adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net of 'Day 1' acquisition costs and is calculated as the value of expected cash flows from new business sold, discounted at the risk free rate
NON-ECONOMIC ASSUMPTIONS	Assumptions related to future levels of mortality, morbidity, persistency and expenses
NON-PROFIT FUND	A fund which is not a with-profit fund, where risks and rewards of the fund fall wholly to shareholders
OPERATING COMPANIES	Refers to the trading companies within Phoenix Life
OPERATING COMPANIES' CASH GENERATION	Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies
OPERATING PROFIT	Operating profit is a non-GAAP measure that is considered a more representative measure of performance than IFRS profit or loss after tax as it is based on expected long-term investment returns
ORIGO	An electronic pensions transfer system
OWN FUNDS	Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles and subordinated liabilities which qualify to be included in Own Funds under the Solvency II rules. Eligible Own Funds are the amount of Own Funds that are available to cover the Solvency Capital Requirements after applying prescribed tiering limits and transferability restrictions to Basic Own Funds
PARTIAL INTERNAL MODEL	The model used to calculate the Group Solvency Capital Requirement 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. The insurers involved can be in the same corporate group or in different groups. Transfers require the consent of the High Court, which will consider the views of the PRA and FCA and of an Independent Expert

PARTICIPATING BUSINESS	See with-profit fund
PERIPHERAL EUROZONE	Refers to Portugal, Ireland, Italy, Greece and Spain
PRA	Prudential Regulation Authority – The body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA and FCA use a Memorandum of Understanding to co-ordinate and carry out their respective responsibilities
PROTECTION POLICY	A policy which provides benefits payable on certain events. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness
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
SHAREHOLDER CAPITAL COVERAGE RATIO	Represents total Eligible Own Funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR
SOLVENCY	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 REQUIREMENTS ('SCR')	SCR relates to the risks and obligations to which the Group is exposed, and is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200-year event'
STANDARD FORMULA	A set of calculations prescribed by the Solvency II regulations for generating the SCR
STANDARD LIFE ASSURANCE BUSINESSES	Standard Life Assurance Limited, Standard Life Pensions Fund Limited, Standard Life International Designated Activity Company, Vebnet (Holdings) Limited, Vebnet Limited, Standard Life Lifetime Mortgages Limited, Standard Life Assets and Employee Services Limited and Standard Life Investment Funds Limited (together known as the Standard Life Assurance businesses) acquired by the Group on 31 August 2018
SUNLIFE	SunLife Limited. The Company which distributes SunLife branded products on behalf of its immediate parent company, Phoenix Life Limited and certain third parties
TIER 1 NOTES	The £500 million fixed rate reset perpetual restricted Tier 1 write down Notes issued by Phoenix
TRANSITIONAL MEASURES ON TECHNICAL PROVISIONS	Transitional Measures on Technical Provisions ('TMTP') is an allowance, subject to the PRA's approval, to apply a transitional deduction to technical provisions. The transitional deduction corresponds to the difference between net technical provisions calculated in accordance with Solvency II principals and net technical provisions calculated in accordance with the previous regime and is expected to decrease linearly over a period of 16 years starting from 1 January 2016 to 1 January 2032. TMTP is subject to a mandatory recalculation every two years or on the occurrence of certain defined events
TSR	Total Shareholder Return – The total return, over a fixed period, to an investor in terms of share price growth and dividends (assuming that dividends paid are re-invested, on the ex-dividend date, in acquiring further shares)
UK CORPORATE GOVERNANCE CODE	Standards of good corporate governance practice in the UK relating to issues such as board composition and development, remuneration, accountability, audit and relations with shareholders
UKCPT	A property investment company which is domiciled in Guernsey and listed on the London Stock Exchange
UK HERITAGE	The Group's business segment where products are no longer marketed to customers, for example with-profits, annuities and many legacy unit linked life and pension products
UK OPEN	The Group's business segment where products are actively marketed to new and existing customers
UNIT-LINKED POLICY	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund
WITH-PROFIT FUND	A fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. Also known as a participating fund as policyholders have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in the with-profit funds in the UK is split 90:10

ONLINE RESOURCES

REDUCING OUR ENVIRONMENTAL IMPACT

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

Go online
www.thephoenixgroup.com

INVESTOR RELATIONS

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

Go online
www.thephoenixgroup.com/investor-relations

NEWS AND UPDATES

To stay up-to-date with Phoenix Group news and other changes to our site's content, you can sign up for e-mail alerts, which will notify you when content is added.

Go online
www.thephoenixgroup.com/site-services/e-mail-alerts.aspx

FORWARD-LOOKING STATEMENTS

The 2019 Annual Report and Accounts contains, and the Group may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives, including in relation to the enlarged Group following the acquisition of ReAssure Group plc and the acquired businesses.

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

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

- domestic and global economic and business conditions;
- asset prices;
- market-related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on the Group's capital maintenance requirements;
- the political, legal and economic effects of the UK's vote to leave the European Union;
- the impact of inflation and deflation;
- market competition;
- changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates);
- the timing, impact and other uncertainties of proposed or future acquisitions or combinations within relevant industries, including but not limited to the acquisition of ReAssure Group plc;
- risks associated with arrangements with third parties;
- inability of reinsurers to meet obligations or unavailability of reinsurance coverage; and
- the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within the 2019 Annual Report and Accounts. No representation is made that any of these statements will come to pass or that any future results will be achieved. As a result, you are cautioned not be place undue reliance on such forward-looking statements contained in this 2019 Annual Report and Accounts.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2019 Annual Report and Accounts or any other forward-looking statements it may make or publish.

The 2019 Annual Report and Accounts has been prepared for the members of the Company and no one else. The Company, its Directors or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Nothing in the 2019 Annual Report and Accounts is or should be construed as a profit forecast or estimate.

PHOENIX GROUP HOLDINGS PLC

Registered address
Phoenix Group Holdings plc
Juxon House
100 St Paul's Churchyard
London EC4M 8BU

Registered Number
11606773