

PHOENIX LIFE LIMITED

Company Registration Number: 1016269

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

PHOENIX LIFE LIMITED

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Strategic report

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

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

Business review

Principal activities

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

The Company writes new business in relation to bulk purchase annuities, protection business written under the SunLife brand and vesting pension annuities while the remainder of the Company’s business is in run-off. The Company has written a wide range of life and pensions business, predominantly on individual risks. The Company also provides de-risking products for corporate clients. All business is written in the UK, with the exception of the Euro denominated business written in the European Union by the Company’s registered branch in the Republic of Ireland.

Reinsurance arrangements are in place with companies outside of the Group to cover certain blocks of immediate and deferred annuities, permanent health, critical illness and term assurance risks and investment contract liabilities that are linked to the performance of funds maintained by the reinsurer. Longevity swap arrangements are in place with a range of reinsurers to reduce the Company’s longevity risk exposure.

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

Strategy

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

Corporate activity

Equity Release Mortgages

On 25 May 2022, the Company transferred the beneficial interest of £339m of equity release mortgages (“ERM”) loans to Phoenix ER5 Limited (“PER5L”), a wholly owned subsidiary, in return for notes issued by PER5L. The loans transferred were LV and More2Life lump sum and drawdown originations between 1 October 2021 to 31 March 2022.

On 21 October 2022, the Company transferred the beneficial interest of a further £573m of ERM loans to PER5L in return for notes issued by PER5L. The loans transferred were LV and More2Life originations between 1 April 2022 to 31 August 2022 and Standard Life Home Finance (“SLHF”) originations between 1 November 2021 to 31 August 2022.

On 7 December 2022, the Company transferred the beneficial interest of £300m of ERM loans to Phoenix ER6 Limited (“PER6L”) in return for notes issued by PER6L. The loans transferred were LV, More2Life and SLHF originations between 1 September 2022 to 31 October 2022 along with ERM6 loans in the Company’s Non-Matched Fund that were eligible for securitisation as at 31 October 2022.

Further details on ERM can be found in notes 20 and 21.

Bulk Purchase Annuity (“BPA”) transactions

During 2022, the Company continued its activities in the BPA market, completing BPA transactions with a combined premium of £4,757m. The transactions entered into and agreed in the year included the fourth and final Buy-In tranche with the Pearl Pension Scheme, a related party of the Company.

For all of the BPA transactions, reinsurance was effected, transferring the majority of the associated longevity risk. During the year ended 31 December 2022 the Company received capital contributions of £307m from Pearl Life Holdings Limited, its parent undertaking to cover the initial solvency strain of these transactions.

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Strategic asset allocation (“SAA”)

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

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

Capital contributions of £508m (2021: £375m) were received in the year. £375m (2021: £nil) of capital contributions were repaid in the year.

Policy administration migration

On 29 November 2018, Phoenix Group announced its intention to move to a single, digitally enhanced outsourcer platform which will improve customer outcomes, supported by Diligenta Limited (“TCS Diligenta”), a subsidiary of Tata Consultancy Services Limited. To date c500k policies across eight systems have been successfully migrated to TCS Diligenta, with the remaining policies expected to transfer during 2023 and 2024.

Future developments

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

Part VII transfers

On 1 January 2023, the Company transferred all Irish branch policies and associated assets and liabilities to Phoenix Life Assurance Designated Activity Company (“PLAEDAC”) under Part VII of the Financial Services and Markets Act 2000.

In addition to the transfer the Company entered into reinsurance agreements post transfer date with PLAEDAC for the contracts invested within the Phoenix WP Fund, 90% WP Fund, Alba WP Fund, SPI WP Fund and the Non-Profit Fund.

As the transfer took place post 1 January 2023 the value of assets and liabilities transferred will be disclosed in the year ended 31 December 2023 financial statements, on an IFRS 17 basis.

Subject to regulatory approval, the Company intends to complete a further series of Part VIIs of the business of Standard Life Assurance Limited, Standard Life Pension Funds Limited and Phoenix Life Assurance Limited (all fellow Group companies) into the Company in order to realise further cost and capital synergies, anticipated on 30 September 2023. During the year ended 31 December 2022 interaction with the regulator has continued advising of the status of the project, with further progress made in developing the internal model and processes to support the entities post any Part VII transfer.

Climate change: activity in the year and future developments

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

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

The Company is focused on providing savings and insurance products that enable policyholders to direct finance to help accelerate the transition to a low carbon economy.

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

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

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

Regulatory developments

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

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

Key Performance Indicators ("KPIs")

The results of the Company for the year are shown in the Statement of comprehensive income on page 41.

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

Capital resources

The Company's solvency position is an important measure of financial strength. As at 31 December 2022 the Company's estimated Solvency II Own funds (unaudited) and excess of own funds over solvency capital requirement (unaudited) were £3,665m (2021: £4,309m) and £1,390m (2021: £1,653m) respectively.

Adjusted operating profit

Adjusted operating profit is one of the key performance indicators used by the Company's Directors and executive management to explain the financial performance of the Company. This measure incorporates an expected return, including a longer term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Adjusted operating profit excludes impacts arising from short-term economic volatility and other one-off items which, due to their size or nature, are not indicative of long-term operating performance.

This non-GAAP measure provides a good indicator of the Company's performance as it provides long-term performance information unaffected by short-term economic volatility and one-off items, and is stated net of policyholder finance charges and tax. It provides stakeholders with a comparable measure of the underlying performance of the Company by identifying and analysing non-operating items.

Adjusted operating profit increased by £150m to £545m (2021: £395m). Adjusted operating profit includes expected returns, including the owners' share of with-profits bonus, of £238m (2021: £217m), changes in demographic assumptions of £47m (2021: £(47)m), demographic experience of £(101)m (2021: £(44)m), model and methodology changes of £102m (2021: £(20)m) new business profits of £225m (2021: £273m) and other operating variances of £34m (2021: £16m).

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

Dividends paid

The payment of dividends to Group is a strategic objective as cash generation is a key metric across the Group. Cash remitted reflects the generation of free surplus within the life companies and the benefit of management actions implemented in the period. No dividends were paid to the parent company during the year (2021: Nil). The directors do not recommend the payment of a final dividend.

Customer satisfaction score

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

Financial ombudsman service ("FOS") overturn rate

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

Speed of pension transfer payouts

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

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Operations

During the year, the Company has maintained ten with-profits ("WP") funds of which the Alba WP, Britannic IB, Britannic WP, Phoenix WP, 90% WP, SMA WP, SPL WP, SAL WP and NPI WP funds are operated on a 90:10 basis and the 100% WP fund on a 100:0 basis. The Company also maintains a portfolio of non-profit business for which the profits accrue to the shareholder and which comprises unit-linked life and pensions and conventional life, pensions and permanent health business.

There are agreements in place for the company to provide financial support to its WP funds, if necessary. At 31 December 2022 the value of support provided to the Britannic WP fund was £9m (2021: Nil).

Policy administration is outsourced to the service companies within the Group, which, in turn, have sub-contracted some administration most significantly to TCS Diligenta and to Capita Life and Pensions Regulated Services Limited. Under the Company's agreements with the service companies, the majority of costs are levied on a per policy basis thereby mitigating the Company's expense risk. As explained in the Corporate Activity section above, the Company is currently undertaking a policy administration migration, which will result in TCS Diligenta being solely responsible for policy administration.

Asset management is outsourced to a diversified range of providers, of which the most significant are Ignis Investment Services Limited and Aberdeen Asset Management plc, both members of the abrdn group, which was a related party of the Company until February 2021, and Henderson Global Investors Limited (part of Janus Henderson Investors).

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

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

Phoenix Unit Trust Managers Limited, a wholly owned subsidiary, is the authorised fund manager of a range of collective investment schemes, of which the Group is the majority unitholder.

SunLife Limited, a wholly owned subsidiary, distributes protection products manufactured by the Company in return for a commission.

Directors' duties under section 172 of the Companies Act

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

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

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

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

- Its customers;
- Its strategic partners and outsourced service providers;
- The Group's employees engaged to undertake work on behalf of the Company;
- Its regulators, the Prudential Regulatory Authority and the Financial Conduct Authority; and
- The Company's immediate parent, Pearl Life Holdings Limited, and ultimate parent, Phoenix Group Holdings plc.

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

- the impact of the war in Ukraine to, to include the level of exposure to investments, impacts on customers and the increase in potential cyber attacks;
- the impact of the “Great Resignation” on the Group’s employees and the potential for associated attrition and skills shortages;
- the impact of the “Cost of Living” and how the Group was reacting to the needs of both customers and the Group’s employees who may be suffering from financial hardship;
- the market instability faced during the second half of 2022.

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

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

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KEY BOARD DECISION	Appointment of Equiniti Limited as the preferred Bulk Purchase Annuity Administrator
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Optimising our in-force business	<p>As part of the continued growth of the Company's Bulk Purchase Annuity business, the Board considered proposals for the provision of customer administration services. In doing so, the Board focused on a wide range of matters, which included:</p> <ul style="list-style-type: none"> • Fostering business relationships with suppliers, customers and others: The Board noted that the proposed solution was expected to provide a customer journey that would differentiate Phoenix from its competitors and that the business would work with the preferred provider (Equiniti Limited) to co-develop a solution that provided this differentiation. • The desire to maintain a reputation for high standards of business conduct: The Board further challenged the rationale for choosing a new provider rather than selecting an existing service provider given the additional risks that may occur with the build of new architecture. In particular, it was requested that the business provide the rationale for not choosing the incumbent ReAssure ALPHA platform or that of Diligenta. <p>Likely consequences of any decisions in the long term: Following earlier discussions, the Board sought additional information about the long-term position of the preferred provider in the light of its acquisition by a private equity firm. It received assurance that the business had been made aware of this transaction as part of the Request For Proposal (RFP) phase and that the purchaser was fully supportive of the preferred provider's RFP response, with no indication that there would be any changes that would materially affect the operation of the proposed arrangement. The Board also noted the preferred provider's strong financial sustainability.</p>
OUTCOME	Following due consideration of the matters set out in section 172, the Board authorised management to finalise the terms of the agreement with the proposed partner. The business entered into the arrangement in May 2022.

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

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KEY BOARD DECISION	YE21 Annual Accounts
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Optimising our in-force business	<ul style="list-style-type: none"> • Likely consequences of any decisions in the long term: As part of the year end accounts approval process, the Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. Such consideration enabled the Board to reach a decision to approve the YE21 accounts, within which a going concern statement was included (relied upon by others assessing the business). The long-term impact of the decision to approve the YE21 accounts therefore included the potential reliance of those reading the accounts on the going concern statement, which the Board considered to be relevant and accurate. <p>Maintaining a reputation for high standards of business conduct: Prior to approving the YE21 accounts, the board considered the opinions of the Finance Director with supporting paperwork presented by the Financial Reporting team, together with the outcome of an external audit for the accounts, including assessments relating to the impact of geopolitical risk in light of escalating Ukraine tensions and remaining uncertainty in respect of Covid19.</p>
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the YE21 accounts.

KEY BOARD DECISION	H1 2022 Capital contribution repayment Proposal
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Optimising our in-force business	<p>At the 2022 mid-year point, the Board received papers setting out in detail the Company's actual and projected solvency and liquidity position, to enable it to assess the resources available for a distribution to the Company's sole shareholder, Pearl Life Holdings Limited</p> <ul style="list-style-type: none"> • Likely consequences of any decisions in the long term: When considering the proposal to approve a capital contribution repayment, the Board paid due regard to the long term impact of that decision – specifically in relation to Company's ability to meet its regulatory capital requirement. In particular, the Board considered the impact of market stresses and extreme inflation on the Company's ability to remain robustly capitalised following any capital contribution repayment. The Board also received comprehensive Line 2 assurance from the Risk function as to the appropriateness of the proposed capital contribution repayment. • Fostering business relationships with suppliers, customers and others: The Board recognised the importance of being able to provide assurance to the regulator, the Prudential Regulatory Authority, as to its sound and prudent management. The Board considered the H1 2022 capital contribution repayment proposal in the context of satisfying its regulatory capital obligations in this respect. It also noted the impact of the proposed capital contribution repayment on the Company's customers, recognising that the solvency position post-payment meant that policyholder obligations continued to be met. <p>Maintaining a reputation for high standards of business conduct: In addition to maintaining its minimum regulatory capital requirement, the Company applies an additional capital buffer as an extra layer of prudence. The Board considered the H1 2022 capital contribution repayment proposal in the context of maintaining its additional management buffer. In doing so, it recognised the importance of the Company's ongoing capital strength.</p>
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the H1 capital contribution repayment of £375m, to be paid to its sole shareholder, Pearl Life Holdings Limited.

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KEY BOARD DECISION	Closed Book Business Acquisition
STRATEGIC IMPORTANCE Growing our business to support both new and existing customers	<p>CONSIDERATION OF S172 MATTERS</p> <p>The Board received a proposal in relation to the ultimate parent's proposed acquisition of a closed book business in order to consider the impact of doing so on the Group's Life Companies, of which the Company is one.</p> <ul style="list-style-type: none"> • Fostering business relationships with suppliers, customers and others: The proposal incorporated a detailed analysis of potential customer impacts in respect of the acquisition. The Board noted that whilst there were no red flags, work would be required to align some product outcomes to Phoenix's appetite. This work was expected to be achieved without placing customer outcomes for existing Phoenix customers at risk. • Maintaining a reputation for high standards of business conduct: The outputs of an Acquisition Impact Assessment of operational capacity to deliver the target operating model post-acquisition were considered by the Board. The Board noted that integration execution would be gradual and measured, beginning only when capacity became available. The only exception to this approach would be where the target was outside of Group risk appetite. <p>Likely consequences of any decisions in the long term: The Board discussed how any potential impact on the Company's capital position arising from the target's products offering guaranteed rates would need to be managed, noting that to do so, it needed to be comfortable that reserves were appropriate, the capital position was robust and that customers were being treated fairly.</p>
OUTCOME	Following due consideration of the matters set out in section 172, the Board concluded that it was able to provide the Group Board with a non-objection for the transaction to proceed.

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

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KEY BOARD DECISION	Migration of Phoenix Life policies to a new administration platform
STRATEGIC IMPORTANCE Optimising our in-force business	CONSIDERATION OF S172 MATTERS Having undertaken migrations of two tranches of legacy policies to a new administration platform in 2020 and 2021, the Board considered a proposal to migrate a further tranche of policies to the new platform. <ul style="list-style-type: none"> • Likely consequences of any decisions in the long term: In considering the proposal, the Board recognised the long term benefit of safely moving customers to a more robust platform, which was aligned to the Group's wider strategic objectives. • Fostering business relationships with suppliers, customers and others: The Board considered actions identified and undertaken in order to ensure a safe landing for customers onto the new platform. These included: dry runs and dress rehearsals; managing timing of customer payments; stress testing; and back-out planning. • Maintaining a reputation for high standards of business conduct: As well as ensuring that learnings from the previous migrations had been incorporated into the proposal, the Board considered the readiness of the business to undertake the next phase. This included matters such as resourcing and handling of manual workarounds, as well as the impact on the "business as usual" environment, as monitored by key performance metrics. In seeking a balanced view of the proposal, the Board also considered risks, uncertainties and contingencies contained therein and associated mitigating actions. Further, the Board received comprehensive assurance from the Risk function on the detail of the proposal. • The interests of the Company's employees: The proposal set out impact of the migration on employees, which asked the Board to note how further resource needs had been met and the additional staff training provided in readiness for migration.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the decision to go live with the next migration phase.

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

Business relationships with customers

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

Business relationships with Partners/Suppliers

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

Energy and carbon reporting

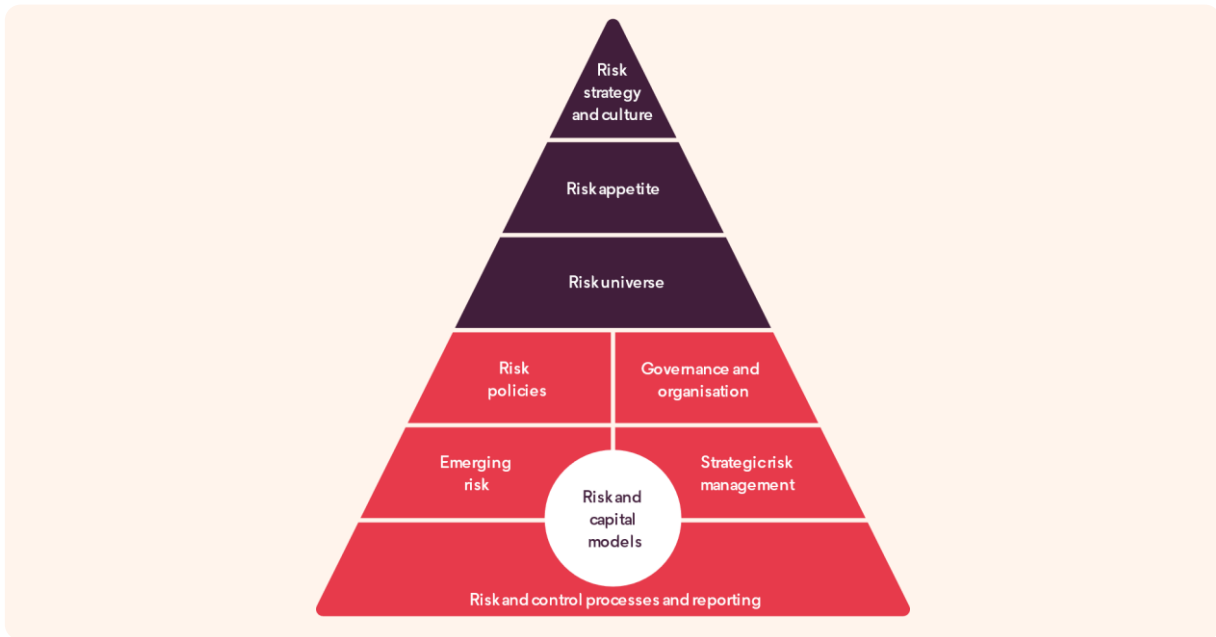
Energy and Carbon usage information is disclosed in the Group's annual report and accounts and accordingly the Company has not reported on this in these individual financial statements.

Risk Management Framework

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

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



Risk Environment

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

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

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

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

The Group is working to implement the requirements of IFRS17. Whilst plans are in place to deliver the required disclosures in the interim accounts, there remain significant delivery risks given the complexity of the business. The Group recognises that should it not deliver IFRS 17 reporting for the HY23 interim accounts, certain reputational, regulatory and other market consequences would arise that could be material. Management has considered the risks to executing the plans and identified actions that could be taken should these risks materialise

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

The Group and Company retains focus on delivering on its strategic operating model. In 2022 this included migration of a further 130,000 customer policies from Capita to TCS Diligenta. The Group places significant focus on the operation of its key strategic partnerships, including the operational resilience of each, in order to protect the efficient operation of the business and delivery of service to its customers.

Principal risks and uncertainties

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

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During 2022, for the purposes of managing risks of the Company, including those impacting the Company's financial assets and financial liabilities, the Company considered the following Risk Universe categories: Financial Soundness; Market; Insurance; Credit; Customer; Operational; and Strategic. Sources of these risks, and an explanation of actions taken to manage risk exposures during the year, are outlined in more detail in note 36 of the financial statements.

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

Most of the with-profit funds are strong financially (i.e. do not require shareholder support in meeting their liabilities and capital requirements) and the risks of meeting policyholder guarantees are unlikely to have a material adverse impact on the Company. Risks are managed through investment strategies matching liabilities with fixed and variable rate income securities to mitigate risks associated with guarantees and with the purchase of derivatives to mitigate risks of guaranteed annuity options.

The financial strength of Britannic WP Fund has reduced over 2021-2022 and required support from the Company in 2022, primarily due to adverse market conditions and an increase in the Cost of Guarantees due to the introduction of a new Economic Scenario Generator, used for calculating Solvency II reporting results. The Company is investigating available management actions to improve the solvency position of the fund and avoid requirements for shareholder support in the future.

The Company closely manages the risk of failure to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements mandated by the Solvency II Directive and the PRA. The Capital Management Framework is detailed in note 35.

Strategic risk – Organic Business Growth

1. The Group, including the Company, fails to deliver long-term organic growth

Impact	Mitigation	Events in the year
<p>The Company aims to deliver sustainable cash generation by achieving organic growth in excess of the run-off from its in-force business.</p> <p>Confidence in the Group might be diminished if it fails to deliver organic growth in line with targets shared, particularly as the Group seeks to promote a 'customer obsessed' mind-set underpinned by strong retention and consolidation as customer's journey to and through retirement.</p>	<p>The Group's Business Unit structure brings renewed focus and accountability. The key area of growth is Retirement Solutions (including BPA).</p> <p>Each Business Unit holds an annual strategy setting exercise to consider customer needs, the interests of shareholders, the competitive landscape and the Company's overall purpose and objectives.</p> <p>The Company's Annual Operating Plan commits it to making significant investment in its Retirement Solutions business which will include propositions which are driven by customer insight.</p> <p>The Company is established in the Bulk Purchase Annuity (BPA) market and continues to invest in its operating model to further strengthen its capability to support its growth plans.</p> <p>For new BPA business, the Company continues to be selective and proportionate, focusing on value not volume, by applying the Group's rigorous Capital Allocation Framework.</p>	<p>Over 2022 the Company completed bulk annuity transactions with a combined premium of £4.8 billion. This continues to demonstrate that the Company has the ability to compete and win in the BPA market.</p>

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Market risk**2. Adverse market movements can impact the Group, and the Company's, ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment**

Impact	Mitigation	Events in the year
<p>The Company and its customers are exposed to the implications of adverse market movements. This can impact the Company's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers.</p> <p>There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector specific sentiment, global pandemics and financial risks of climate change, including risks from the transition to a low carbon economy.</p>	<p>The Company undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In particular, the Company's increase in exposure to residential property and private investments, as a result of its BPA investment strategy, is actively monitored and managed within risk appetite limits.</p> <p>The Company continues to implement de-risking strategies and control enhancements to mitigate unwanted customer and shareholder outcomes from certain market movements such as equities, interest rates, inflation and foreign currencies.</p> <p>The Group maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows.</p>	<p>There remains significant uncertainty around the economic recovery from COVID-19, geopolitical tensions and interest rates.</p> <p>The global macro-economic environment remains highly uncertain, as it has throughout 2022.</p> <p>The Ukraine conflict and rapid increase in inflation have increased market volatility throughout 2022, with recession expected throughout Europe and possibly the wider world. The longer-term impacts of the conflict have affected the cost and availability of food and vital commodities such as oil and gas, driving inflationary pressures.</p> <p>Inflation is considered a material short to medium-term risk. Pressures continue and the UK Consumer Price Index hit 11.1% in October 2022, before retreating slightly to 10.7% in November and ending the year at 10.5% in December. Bank of England base rate has increased from 0.1% at Dec 2021 to 3.5% at 31 December 2022 and a further increase to 4% voted by the Monetary Policy Committee in February 2023, with expectations of a peak at 4.6% in 2023. Higher interest rates, coupled with cost of living rises, are likely to suppress property prices over the coming year.</p> <p>The UK mini-budget added further pressure to yield rises, squeezing liquidity throughout the long-term savings sector. The tax increases and government spending cuts announced in the Chancellor's Autumn statement helped to stabilise markets but have the potential to worsen customer sentiment, which may deepen the expected recession in the UK and affect the ability of households to save.</p>

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The Group, including the Company, continues to monitor and manage its market risk exposures, including to interest rates and inflation, and to markets affected by the conflict in Ukraine.

The Company's strategy continues to involve hedging the major market risks and in 2022 the Group's Stress and Scenario Testing Programme (applicable to the Company) continued to demonstrate the resilience of its balance sheet to market stresses.

Contingency actions remain available to help manage the Company's capital and liquidity position in the event of unanticipated market movements such as those following the mini-budget.

Credit Risk

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

Impact

The Company is exposed to the risk of downgrades and deterioration in the creditworthiness or default of investment, derivatives or banking counterparties. This could cause immediate financial loss or a reduction in future profits.

The Company is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations. This would negatively impact the Company's operations which may in turn have adverse effects on customer relationships and may lead to financial loss.

Mitigation

The Company regularly monitors its counterparty exposures and has specific limits relating to individual counterparties (with sub-limits for each credit risk exposure), sector concentration and geography.

The Company undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised.

The Company regularly discusses market outlook with its asset managers in addition to oversight provided by Group Risk.

For mitigation of risks associated with stock-lending, additional protection is provided through collateral and indemnity insurance.

Events in the year

Over 2022 the Company, has continued to undertake actions to increase the overall credit quality of its portfolio and mitigate the impact on risk capital of future downgrades.

Furthermore, the Group and the Company has enhanced its counterparty concentration limits framework to better manage counterparty failure risk. This positive progress and the easing of the economic and social impacts of COVID-19, are balanced by risks arising from the Ukraine conflict and UK Government policy.

Uncertainties over the global economic outlook and high inflation present an increased risk of downgrades and defaults. In addition, a UK sovereign downgrade which is now more probable would have a negative impact on UK related assets including Gilts, Housing Associations and Local Authority Loans.

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The Company, has no direct shareholder credit exposure to Russia or Ukraine and no exposure to sanctioned entities.

The Company continues to increase investment in illiquid credit assets as a result of BPA transactions. This is in line with the Company's strategic asset allocation plan and within risk appetite.

Insurance risk

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

Impact

The Company has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if annuity policyholders live for longer than expected, then the Company will need to pay their benefits for longer.

The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Company's ability to meet its cash flow targets.

Mitigation

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

The Company regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements.

The Company continues to manage its longevity risk exposures, which includes the use of longevity swaps and reinsurance contracts to maintain this risk within appetite. The Company actively monitors persistency risk metrics and exposures against appetite.

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

Events in the year

Demographic experience and the latest views on future trends continue to be considered in regular assumption reviews although, for most products, experience over the COVID-19 pandemic has still been given little weight given its anomalous nature.

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

The Company completed bulk annuity transactions with a combined premium of £4.8 billion in 2022. Consistent with previous transactions, the Company continues to reinsure the vast majority of the longevity risk with existing arrangements that are reviewed regularly.

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Customer Risk**5. The Group, including the Company, fails to deliver fair outcomes for its customers or fails to deliver propositions that continue to meet the evolving needs of customers**

Impact	Mitigation	Events in the year
<p>The Company is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and potential customer detriment. This could also lead to reputational damage for the Company and/or financial losses.</p> <p>In addition, a failure to deliver propositions that meet the evolving needs of customers may result in the Company's failure to deliver its purpose of helping people secure a life of possibilities.</p>	<p>The Group's Conduct Risk Appetite, applicable to the Company, sets the boundaries within which the Group expects customer outcomes to be managed.</p> <p>The Group Conduct Risk Strategy, which overarches the Risk Universe and all risk policies, is designed to detect where the Group and the Company's customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions.</p> <p>The Group, including the Company, has a suite of customer policies which set out key customer risks and controls in place to mitigate them.</p> <p>The Company maintains a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes.</p> <p>The Company's Proposition Development Process ensures consideration of customer needs and conduct risk when developing propositions.</p>	<p>The Group, including the Company, is preparing for the introduction of the FCA's Consumer Duty requirements which set higher and clearer standards of consumer protection across financial services and require firms to prioritise their customers' needs. The Consumer Duty initial implementation plan has been agreed by the Company Board.</p> <p>In November 2022, the Company safely and successfully completed the third migration of circa 130k policies from Capita to the Diligenta BaNCS platform. This is a more modern and digitally enabled platform and supports the Company's ambition to provide the best experience and care for customers.</p> <p>The Company is monitoring the impacts of the cost of living crisis on its customers, using customer behaviour research and analysis, to ensure that it provides them with the support and help that they need during this period of economic uncertainty. The Company continues to provide support to customers both when paying out on their protection plans and when making decisions about their life savings. Proactive action to support customers, including those most vulnerable, is a priority to the Company.</p>

Operational Risk – Regulatory, legislative or political**6. The Group, including the Company, is impacted by significant changes in the regulatory, legislative or political environment**

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

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Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.

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

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

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

Following the UK's Supreme Court judgement in November 2022 not to allow the Scottish Government to call a referendum without consent from Westminster, the Group continues to keep a watching brief on how this progresses. As it is not yet clear what impact the death of Her Majesty Queen Elizabeth II and the succession of His Majesty King Charles III will have on public sentiment to the Union, the risk remains under review in the Emerging Risk and Opportunities Framework.

Operational Risk – Operational Resilience

7. The Group, including the Company, or its outsourcers are not sufficiently operationally resilient

Impact	Mitigation	Events in the year
<p>The Company is exposed to the risk of causing intolerable levels of disruption to its customers and stakeholders if it cannot maintain the provision of important business services when faced with a major operational disruption to core IT systems and operations. This could occur either within the Company or those of its primary and downstream outsourcers and include a range of environmental and climatic factors.</p> <p>The Company regularly conducts customer migrations as part of transition activities in delivering against its strategic objectives. In doing so, it faces the risk of interruption to its customer services, which may result in the failure to deliver expected customer outcomes.</p> <p>Regulatory requirements for operational resilience, and a timetable to achieve full compliance, were published in March 2021. Whilst the specific requirement to work within set impact tolerances takes effect in March 2025, the Group and the Company is exposed to regulatory censure now in the event of operational disruption should the Regulator determine that the cause was a breach of existing regulation.</p>	<p>The Group's Operational Resilience Framework, which applies to the company, enhances the protection of customers and stakeholders, preventing intolerable harm and supports compliance with the regulations. The Company works closely with its outsourcers to ensure that the level of resilience delivered is aligned to the Company's impact tolerances.</p> <p>The Company and its outsourcers have well established business continuity management and disaster recovery frameworks that are subject to an annual refresh and regular testing. For example, extensive testing of the power capabilities of the Company and its critical suppliers has shown they are resilient to power cuts from the National Grid.</p> <p>The Company continues to actively manage operational capacity and monitor service continuity required to deliver its strategy, including transition activities. Rigorous planning and stress testing is in place to identify and develop pre-emptive management strategies should services be impacted as a result of customer migrations.</p> <p>The Company and its outsourcers have a flexible working model in place. This significantly reduces exposure to intolerable disruption for its customers.</p>	<p>The Company's change and customer migration agenda require effective completion to deliver planned strengthening of its operational resilience both internally and with some outsourced service providers.</p> <p>The Group, including the Company, has a programme of work to strengthen operational resilience ahead of the next key regulatory deadline of March 2025. Where this is dependent upon customer migration to an alternative administration platform, the risk of late delivery is actively managed by both the relevant change programme and separate operational resilience remediation governance and reporting.</p> <p>As noted in the Company's 2021 accounts, whilst many potential exposures to COVID-19 can now be effectively mitigated, a large-scale loss of colleagues due to illness or incapacity, in the UK or globally, is more challenging to resolve in the short-term as there remains uncertainty around the efficacy of vaccines against future COVID-19 variants.</p>

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

As the Group continues to grow in size and profile this could lead to increased interest from cyber criminals and a greater risk of cyber-attack which could have significant impact on customer outcomes, strategic objectives, regulatory obligations and Group or the Company's reputation and brand.

Based on external events and trends, the threat posed by a cyber security breach remains high and the complexity of the Group's increasingly interconnected digital ecosystem exposes the Group and the Company to multiple attack vectors. These include phishing and business email compromise, hacking, data breach and supply chain compromise.

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

Mitigation

The Company is continually strengthening its cyber security controls, attack detection and response processes, identifying weaknesses through ongoing assessment and review.

The Information/Cyber Security Strategy includes a continuous Improvement Programme, which is driven by input from the Annual Cyber Risk Assessment and external threat intelligence sources.

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

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

Events in the year

The ongoing conflict in Ukraine has resulted in increased cyber threat levels and the increased likelihood of a cyber-attack from a State actor; this would most likely be against the UK's Critical National Infrastructure, particularly on supply chains and the wider Financial Services industry which the Company relies upon. The Group, including the Company, has improved its Threat Intelligence capabilities in 2022 and monitors National Cyber Security Centre guidance and other threat intelligence sources on a daily basis. To date, the Group has not seen a material increase in cyber-attacks since the conflict started.

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

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Operational Risk – Diverse and engaged workforce**9. The Group, including the Company, fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy**

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

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Strategic risk – Strategic Partnerships**10. The Group, and Company's, Strategic Partnerships fail to deliver the expected benefits**

Impact	Mitigation	Events in the year
<p>The Company's strategic partnerships are a core enabler for delivery of the Company's strategy; they allow the Company to meet the needs of our customers and clients and deliver value for shareholders. The Group's end state operating model will leverage the strengths of strategic partners whilst retaining in-house key skills which differentiate us from the market.</p> <p>There is a risk that the Group and the Company's strategic partnerships do not deliver the expected benefits leading to adverse impacts on customer outcomes, strategic objectives, regulatory obligations and the Group's reputation and brand. Some of the key strategic partnerships include:</p> <p>abrdn plc: Provides investment management services to the Company including the development of investment solutions for customers.</p> <p>TCS Diligenta: Provides Business Process Outsourcing services for the Company's closed book life and pensions business.</p> <p>HSBC: Provides fund accounting services to the Company.</p>	<p>The Group has in place established engagement processes with abrdn plc to oversee and develop the strategic partnership. These processes reflect the simplified and extended strategic partnership between the Group and abrdn plc that was announced in February 2021.</p> <p>The Company's engagement with TCS Diligenta, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of the enlarged partnership.</p> <p>The Group has in place established processes to oversee services provided by HSBC in line with its supplier management model.</p> <p>The Group takes steps to monitor its supplier concentration risks across the Life Companies and has rehearsed contingent management actions to deploy should there be a significant failure of a strategic partner.</p>	<p>The Group continues to develop its partnership with TCS Diligenta to support its strategic deliverables and the simplified and extended partnership with abrdn plc continues to advance towards the Target Operating Model Activity involving Strategic Partnerships continues to be assessed in line with the Supplier Management Model.</p>

Strategic Risk – Acquisitions & Transitions**11. The Group fails to make further value adding acquisitions or effectively transition acquired businesses. [Note: the Company may be impacted in the event of an acquisition due to its involvement in the transition of acquired businesses]**

Impact	Mitigation	Events in the year
<p>The transition of acquired businesses into the Group, including customer migrations, could introduce structural or operational challenges that, without sufficient controls, could result in the Group, and the Company, failing to deliver the expected outcomes for customers or value for shareholders.</p>	<p>Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations. The Group's priority at all times is on delivering for its customers.</p>	<p>In August 2022 the Group announced the acquisition of Sun Life of Canada UK, a closed book UK life insurance company, from Sun Life Assurance Company of Canada. The acquisition is subject to regulatory approvals and is expected to complete in Q1 2023.</p>

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

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

Strategic Risk – Climate Change/ESG**12. The Group, including the Company, fails to appropriately prepare for and manage the effects arising from Climate Change and wider ESG risks**

Impact	Mitigation	Events in the year
<p>The Company is exposed to the risk of failing to respond to Environmental, Social and Governance ('ESG') risks and delivering on its social purpose; for example, failing to meet its sustainability commitments. A failure to deliver could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness and reputational risks.</p>	<p>Sustainability risk and Climate risk are both embedded into the Group's RMF. Its approach to climate risk management is in line with the requirements of the PRA's Supervisory Statement 3/19 (SS3/19).</p>	<p>The Group is committed to a 50% reduction in the carbon economic emissions intensity of all assets within its investment portfolio over which it has control and influence by 2030. The Group is also committed to a 25% reduction in the carbon economic emissions intensity of all listed equity and credit investments over which it has control and influence by 2025.</p>
<p>The Company is exposed to market risk and credit risk related to climate change as a result of the potential implications of a transition to a low carbon economy. A failure to manage these risks could result in a loss in the value of policyholder and shareholder assets.</p>	<p>The Group publishes an annual Sustainability Report and an annual Climate Report, the latter of which is prepared in line with the Task Force on Climate-related Financial Disclosures ('TCFD') guidance.</p>	<p>The Group has been working with its key partners and suppliers to encourage them to adopt Science Based Targets initiative carbon reduction targets.</p>
<p>In addition, , there are long-term market, credit, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions).</p>	<p>A Sustainability Risk Policy is in place and updated annually. Consideration of material climate-related risks has been embedded into the Group risk policies (which the Company adopts), with regular reporting undertaken to ensure ongoing visibility of its exposure to these risks.</p>	<p>A Net-Zero Transition Plan, which reflects potential future management actions and forward-looking investee company emission objectives, is in development.</p>
	<p>The Group undertakes annual climate-related stress and scenario testing and continues to build its climate scenario modelling capabilities.</p>	<p>Round 2 of the Climate Biennial Exploratory Scenario exercise, launched by Bank of England, was completed during the year on a consolidated Group basis, including the Company. This explored the strategic responses to the three scenarios and the associated implications for business models.</p>
	<p>The Group continues to evolve its sustainability strategy response to the changing needs of stakeholders and sets targets to monitor progress towards its sustainability commitments. Further details on the sustainability strategy are available in the Group's Sustainability Report.</p>	<p>The Group is in the process of piloting the Task Force on Nature-related Financial Disclosures guidance ahead of the launch of the framework in 2023.</p>

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


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

Strategic Risk – Capacity & Capability to Deliver Change

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

Impact	Mitigation	Events in the year
<p>The Company's ability to deliver change on time and within budget could be adversely impacted by insufficient resource and capabilities as well as inefficient prioritisation, scheduling and oversight of projects. The risk could materialise both within the Company and its strategic partners.</p> <p>This could result in the benefits of change not being realised by the Company in the timeframe assumed in its business plans and may result in the Group being unable to deliver its strategic objectives. Poor change delivery could affect the Company's ability to operate its core processes in a controlled and timely manner.</p>	<p>The Group's Change Management Framework defines a clear set of prioritisation criteria and scheduling principles for new projects. This is to support the safe and controlled mobilisation of new change in line with capacity and risk appetite and to strengthen business readiness processes to deliver change safely into the operational environment.</p> <p>Information setting out the current and forecast levels of resource supply and demand continues to be provided to accountable senior management to enable informed decision-making to take place. This aims to ensure that all material risks to project delivery are appropriately identified, assessed, managed, monitored and reported.</p>	<p>The Group and the Company have continued to manage a significant volume of change, consistent with 2021.</p> <p>The Group has strengthened its Change Management Framework (applicable to the Company) during 2022, with details of the Framework set out in the mitigation column. In September 2022 the Group appointed Jackie Noakes as Group Chief Transformation Officer and subsequently as Group Chief Operating Officer. These changes will drive further enhancements to evolve and mature the Group's change operating model.</p>

On behalf of the Board

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

20 March 2023

 PHOENIX LIFE LIMITED

Directors' report

The Company is incorporated in England and Wales. Its registration number is 1016269 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG.

Corporate governance

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

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

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

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

Aspect of Governance	Demonstrated by
Setting Strategy	<p>As noted in the Directors' duties section of the Strategic report which provides an overview of how the directors have regard for their duty in respect of consequences of decisions in the long-term, an annual strategy day is held each June for the Board to debate and challenge the strategy for the Company and input to the overall Group strategy debate.</p> <p>A more refined view, developed into an Annual Operating Plan, is created for review and sign off at the end of each year which maps out the ongoing strategic direction for the following 12 months and up to 5 years thereafter.</p> <p>Board agendas are prepared so as to ensure that the more strategic items have sufficient time for review and challenge.</p> <p>Key matters discussed and challenged at the Board during the year were: the Group's Sustainability Strategy; appointment of a new Bulk Purchase Annuity administrator; acquisition of a closed book of business; and approval of the strategy for and management of vulnerable customers.</p>
Culture of risk awareness and ethical behaviour	<p>On an annual basis, the Board approves a series of risk appetite statements for articulation throughout the Company.</p> <p>The Group Risk Function have created and presented their assessment of Risk Culture within the business during the year to the Risk Committee. The Dashboard considers 15 specific objectives across Purpose, Diversity & Inclusion, Governance & Controls and Leadership with assessments based on a variety of inputs to include colleague surveys and Board / Committee evaluations.</p> <p>In respect of remuneration, the Non-Executive Directors input into the proposed objectives and performance ratings for those individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive and their direct reports who are also Senior Management Function Holders), as well their respective salary and remuneration packages. This ensures that these objectives promote an effective culture of risk awareness and ethical behaviour.</p> <p>In the same way, the Board was also engaged in the review of any bespoke remuneration plans for business units in advance of their consideration by the Phoenix Group Holdings plc Remuneration Committee.</p>
Risk appetite, risk management and internal controls	<p>As noted above, the risk appetite statements are approved by the Board. Oversight of risks, risk management and internal controls is delegated for oversight by both the Board Audit Committee and Board Risk Committee in line with their Terms of Reference.</p>

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

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Aspect of Governance	Demonstrated by
Board time and resource	<ul style="list-style-type: none"> - Reinsurance - Risk Management Framework (control and risk policy structure) <p>The Board met for 10 scheduled Board meetings in 2022 either in person or via video conference and 2 scheduled Sub-Committees meetings to discussed focused key matters.</p> <p>A further 4 out of cycle meetings were held: one to consider a decision to migrate annuity customer records for EEA customers to a newly formed Irish regulated subsidiary, two to consider the acquisition of a closed book business and one to review the Annual Operating Plan.</p> <p>As well as the Board, a number of Board Committees responsible for overseeing Audit, Risk, Nomination, With-Profits, Investment and Model Governance matters, have also been in operation during the course of the year.</p> <p>Should a Non-Executive Director be considering an additional external commitment, this is reviewed by the Board in advance during which time it is confirmed that the time commitment required will not impact their availability for Company matters.</p>
Management information (MI) and transparency	<p>The Chief Executive presents an update on the Company at least on a quarterly basis which includes a global review of the strategic objectives and associated performance to include Customer Treatment, Customer Complaints, Financial and Operational Capacity MI.</p> <p>The appointment of the Group Chief Executive as Chief Executive of the Company in October 2022 (subject to regulatory approval) has further strengthened the link, through management representation, between the Group and Life Boards.</p>
Succession planning	<p>The performance of the Chief Executive and their direct reports is considered at least annually in private sessions with the Non-Executive Directors during which more informal discussions on succession planning may take place.</p> <p>During 2022 the Board considered succession planning matters in relation to the role of Life Companies Audit Committee Chair. A skills audit exercise was undertaken during the year to support long term succession planning.</p> <p>The Board formally approved an updated version of the Board Succession Plan in December 2022.</p>
Remuneration	<p>Whilst the remuneration of executives is a matter for the Group and, specifically, the Group's Remuneration Committee, the Non-Executive Directors are provided with the information necessary to enable them to oversee the design and operation of the remuneration arrangements linked to the Company's strategic objectives. In addition, the Non-Executive Directors consider and opine on the performance outcomes of the individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive).</p>
Subsidiary boards	<p>Within the scope of Board updates, there is the flexibility to consider the activities of the Company's subsidiary companies. For example, the Board receives a regular update from SunLife Limited.</p> <p>Since 1 October 2022, the Group Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are executive directors of both the Company and its ultimate parent, Phoenix Group Holdings plc. Conflicts of interest are assessed for each agenda item and, where appropriate, the CEO and CFO are recused from decision making at the meeting.</p>
Board Committees	<p>The terms of reference of the committees of the Boards of the regulated Life Companies document the duties of the committees. Any matter which cannot be properly dealt with by the committee concerned or needs to be escalated is submitted to the Board for consideration.</p> <p>Board Committee terms of reference have been assessed against activity undertaken and amended during the course of the year, as appropriate, to ensure corporate governance arrangements remained aligned to the Group operating model.</p>

Financial instruments

Details of the Company's financial risk management objectives and policies in respect of its use of financial instruments are included in note 36 to the financial statements.

Going concern

The Strategic report and Directors' report summarise the Company's activities, its financial performance and financial position together with any factors likely to affect its future development. In addition, they discuss the principal risks and uncertainties it faces. Notes 35 and 36 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

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

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

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

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

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

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

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

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

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

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Directors

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

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

Secretary

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

Branches

The Company currently has branches in Hong Kong and the Republic of Ireland. Following the Part VII transfer on 1 January 2023 there will no longer be any requirement for the Company to maintain the third country branch in the Republic of Ireland and the Company will subsequently pursue de-authorisation of this branch.

Matters disclosed in strategic report

The strategic report covers future developments and any dividends paid.

Disclosure of indemnity

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

Disclosure of information to auditor

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

Re-appointment of auditor

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

On behalf of the Board

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P Shakespeare
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

20 March 2023

Statement of Directors' responsibilities

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

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

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

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

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

We have audited the financial statements of Phoenix Life Limited for the year ended 31 December 2022 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 41, (except for that element of note 35, 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 UK adopted international accounting standards.

In our opinion, the financial statements:

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

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- confirming our understanding of the directors' going concern assessment process and obtained the assessment which covers the period to 30 June 2024;
- with support from our actuarial team, challenging the key actuarial assumptions used in management's five-year Annual Operating Plan ('AOP'). We have observed that assumptions used in the five-year AOP form the basis for management's going concern projections;
- assessing the accuracy of management's going concern analysis by testing the inputs and the clerical accuracy of the models used;
- assessing management's consideration of how solvency and liquidity has been managed in response to the current economic environment and evaluating the liquidity and solvency position of the Company by reviewing base case and downside liquidity and solvency projections that incorporate an estimated view of the potential future economic downturn;
- challenging the key assumptions, and plausibility of management actions used in management's downside scenarios to mitigate the impact of the key risks by considering the success of previous similar management actions and the robustness of the plans in the context of our understanding of the Company;
- evaluating management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of solvency headroom;
- assessing management's considerations of operational risks, including those related to Outsourced Service Providers ('OSPs') and their impact on the going concern assessment;
- performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment was approved by the Board, minutes of meetings of the Board and its committees; and
- assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

Based on management's assessment, we have observed that the Company continues to have surplus cash and solvency above its Solvency Coverage Ratio in a number of extreme downside scenarios and the Company continues to service customers and meet its commitments in the current environment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period to 30 June 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

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Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Valuation of Insurance Contract Liabilities, comprising the following risk areas: <ul style="list-style-type: none"> ○ Actuarial assumptions ○ Actuarial modelling; and ○ Policyholder data • Valuation of Equity Release Mortgages ('ERM') • Valuation of fair value hierarchy 3 ('FVH3') modelled debt securities
Materiality	<ul style="list-style-type: none"> • Overall materiality of £39.3m (2021: £36.0m) which represents 2% of closing net assets (2021: opening net assets).

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 the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed.

We instructed:

- the Central Investments component team to audit investment balances and associate income and expenses; and
- the Service Companies component team to perform specified procedures with respect to these expenses and the recharge to the Company. The Company records recharges from the Pearl Group Management Services Limited ('PGMS') and Pearl Group Services Limited ('PGS') within operating expenses and certain baseline expenses that form part of the assumption setting process for insurance contract liabilities recognised by the Company.

All other audit work was performed directly by the audit engagement team.

Details of the team performing the audit procedures and the scope of those procedures are set out below;

Component	Scope	Auditor
Phoenix Life Limited	Full scope	Primary team
Central Investments Component Team	Specific scope	EY component team
Service Companies Component Team	Specified procedures	EY component team

Overall, our audit procedures covered 100% of the Company's equity and 100% of the Company's loss before tax.

Involvement of the component team

In establishing our overall approach to the audit team, we determined the type of work that needed to be undertaken at 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.

Audit procedures were performed on the full scope component by the primary audit team whilst the remaining two components were audited by the component audit teams. 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 Company financial statements as a whole. We followed a programme of planned virtual meetings and maintained oversight of component teams through onsite collaboration and regular meetings. We reviewed the audit procedures performed by the component teams on the specific accounts.

The work performed on the component teams gave us appropriate evidence for our opinion on the Company financial statements as a whole.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Company. The Company has explained the most significant risks from climate change on its operations in the principal risks and uncertainties section of the strategic report. This forms part of the "Other information" rather than the audited financial statements and our procedures on the disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the critical accounting estimates and judgements note on page 48, management has assessed climate change risks as having a limited effect on accounting judgements and estimates for the current period. The note sets out the Company's consideration of the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, insurance and investment contract liabilities and intangible assets.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of climate change and their resulting conclusion that there was limited effect from climate change on balances in the financial statements and the adequacy of the Company's disclosures in the critical accounting estimates and judgements note to explain their rationale.

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 (£31.7 billion; 2021: £39.1 billion).

Refer to Note 2 Accounting policies (a) Critical accounting estimates and judgements and (r) Insurance contracts and investment contracts with DPF, and Note 28 Liabilities under insurance contracts of the financial statements.

We considered the valuation of insurance contract liabilities to be a significant risk for the Company. Specifically, we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgments about future events both internal and external to the business, for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is reliant upon the accuracy and completeness of the data.

We have split the risks relating to the valuation of insurance contract liabilities into the following component parts:

- actuarial assumptions;
- actuarial modelling; and
- policyholder 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.

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Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Actuarial assumptions</p> <p><i>There has been no change in our assessment of this risk from the prior year.</i></p> <p>Economic assumptions are set by management taking into account market conditions as at the valuation date and require minimal judgment. Non-economic assumptions are set based on the Company's past experience, market experience and practice, regulations and expectations about future trends.</p> <p>The assumptions that we consider to have the most significant impact are the base and trend longevity, persistency, assured mortality and expenses.</p> <p>Given the recent economic volatility we place additional focus on future economic assumptions such as inflation assumptions at the 2022 year-end date.</p> <p>These assumptions are used as key inputs into the valuation models, which use standard actuarial methodologies.</p>	<p>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:</p> <ul style="list-style-type: none"> • obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating key actuarial assumptions; • challenged and assessed whether the methodology and assumptions applied were appropriate based on our knowledge of the Company, industry standards and regulatory and financial reporting requirements; • reviewed and challenged the results of management's experience analysis, including the base longevity, persistency and assured mortality, to assess whether these justified the adopted assumptions. • challenged and assessed management's decisions on the inclusion or exclusion of data relating to COVID-19 when setting individual assumptions, including longevity, mortality and persistency; • in respect of longevity improvements, we evaluated the results of management's analysis on longevity trend, challenged the judgments applied by management in setting the parameters and benchmarked the output against other industry participants and the results from the industry standard Continuous Mortality Investigation ('CMI'); • assessed the expense assumptions adopted by management considering an impact of the recent economic volatility on the components of expenses inflation. Our focus has been on the change in the nature of the cost base arising through the volumes of new insurance business written. We have challenged the assumed development of expenses including inflation across the AOP period, the allocation of those expenses between acquisition and maintenance and the resulting calculation of unit costs, as well as the inclusion of benefits arising from planned future management actions; • performed procedures to test that the assumptions used in the year end valuation were consistent with the approved basis; and • benchmarked the demographic and economic assumptions, against those of other comparable industry participants. 	<p>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.</p> <p>We concluded the economic and non-economic assumptions have been appropriately included within the year-end actuarial models.</p>

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<p>Actuarial modelling</p> <p><i>There has been no change in our assessment of this risk from the prior year.</i></p> <p>We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £23.1 billion of the £31.7 billion (2021: over £27.6 billion of the £39.1 billion) insurance contract liabilities are modelled using the core actuarial modelling system, with the residual balance modelled outside these systems to cater for any additional required liabilities not reflected in the models.</p> <p>We consider the key risks to relate to i) model developments applied to the core actuarial model and ii) the appropriateness of the calculations that are applied outside of the core actuarial models.</p>	<p>To obtain sufficient audit evidence to conclude on core actuarial modelling systems and balances calculated outside these systems, using EY actuaries as part of our audit team we performed the following procedures:</p> <ul style="list-style-type: none"> obtained an understanding of management's process for model changes to the core actuarial system and tested the design, implementation and operating effectiveness of key controls, including governance processes, over that process; tested the system infrastructure and IT general controls of the core actuarial model; challenged and evaluated the methodology, inputs and assumptions applied model changes made in the core actuarial modelling systems over the year; reviewed the governance process around model changes by review of the relevant committee minutes; assessed the results of management's analysis of movements in insurance contract liabilities to corroborate that the actual impact of changes to models was consistent with that expected when the model change was implemented; and stratified the components of the balance modelled outside the core actuarial system as at the balance sheet date and focused our testing on those that, in our professional judgment, present a higher risk of material misstatement. As part of the testing, we gained an understanding of the rationale for balances calculated outside of the core actuarial system and assessed the appropriateness of the applied calculation methodology. In addition, in non-profit or shareholder funds we also perform an independent valuation of a sample of insurance contract liabilities which are modelled outside the core actuarial system. 	<p>We determined that the models used are appropriate, that changes to the models were implemented as intended, and that controls over management's processes for modelling insurance contract liabilities using the core actuarial modelling systems were operating effectively.</p> <p>We also determined that liabilities modelled outside these core actuarial modelling systems are not materially misstated.</p>
<p>Policyholder Data</p> <p><i>There has been no change in our assessment of this risk from the prior year.</i></p> <p>The insurance contract data held on policy administration systems ('the policyholder data') is a key input into the valuation process. The valuation of insurance contract liabilities is therefore reliant upon the accuracy and completeness of the data used.</p>	<p>To obtain sufficient audit evidence to assess the integrity of policyholder data we performed the following procedures:</p> <ul style="list-style-type: none"> obtained an understanding and tested the design and operating effectiveness of the key controls, including information technology general controls, over management's data collection, extraction and validation process and input into actuarial models; 	<p>We determined based on our audit work that the policyholder data used for the actuarial model inputs is materially complete and accurate.</p>

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	<ul style="list-style-type: none"> • for Outsourced Service Providers ('OSP') where we have placed reliance on the ISAE 3402 Service Organisation Controls ('SOC') report, we have reviewed the ISAE 3402 SOC report and bridging letter where relevant to determine the impact of any identified control exceptions ; • for OSPs where we do not receive a ISAE 3402 SOC report we have obtained an understanding of the process over data extraction and input into the actuarial models and performed direct testing of the design and operating effectiveness of the key controls; • confirmed that the actuarial data extracted from policy administration systems and those provided by the OSPs were those used as an input to the actuarial model; • assessed the appropriateness of management's grouping of data for input into the actuarial model; • through the use of our data visualisation and analytics techniques, performed focussed substantive testing over the completeness and accuracy of the policyholder data and the appropriateness of management's data cleansing rules; and • performed the comparison of policy level data between data in the actuarial models and that contained within the policy administration systems. We evaluated the accuracy of policyholder data by agreeing a sample back to the policyholder documents. 	
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Valuation of Equity Release Mortgages (ERM) (£3.7 billion: 2021: £3.9 billion)

Refer to Note 2 Accounting policies (a) Critical accounting estimates and judgements and (l) Financial assets and Note 20 of the financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><i>There has been no change in our assessment of this risk from the prior year.</i></p> <p>Observable inputs are not readily available for the valuation of equity release mortgages ('ERM') financial investments. Consequently, management use models and other inputs to estimate their value.</p>	<p>To obtain sufficient audit evidence to conclude on the valuation of ERM, we:</p> <ul style="list-style-type: none"> • tested the design and operating effectiveness of key controls over management's assumption setting processes for valuing these instruments; • tested the completeness of the ERM financial investments and underlying data at the period end through independent confirmation; 	<p>Based on our procedures performed on ERM assumptions and data feeding into the model we are satisfied that the valuation of the ERM financial investments is reasonable.</p>

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<p>We consider that the key risks relating to the valuation of ERM financial investments, relates to: i) assumptions as these are largely based on non-observable inputs and are highly judgemental, and ii) the completeness and accuracy of data feeding the valuation model.</p>	<ul style="list-style-type: none"> • 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 were appropriate considering the current economic volatility; and • developed our own independent model to value the ERM financial investments and compared the output to the results produced by the Company. 	
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Valuation of fair value hierarchy 3 ('FVH3') modelled debt securities in non-profit or shareholder funds (£2.6 billion; 2021 £2.4 billion).

Refer to Note 2 Accounting policies (a) Critical accounting estimates and judgements and (l) Financial assets, and Note 21 of the financial statement.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><i>There has been no change in our assessment of this risk from the prior year.</i></p> <p>We have deemed the risk to relate to FVH3 modelled debt securities, such as private placements, local authority loans and infrastructure loans where the valuation relates to assets in non-profit or shareholder funds.</p>	<p>To obtain sufficient audit evidence to conclude on the valuation of FVH3 modelled debt securities, we:</p> <ul style="list-style-type: none"> • reviewed the ISAE 3402 SOC report of the OSP covering period to 30 September 2022, including those controls over the valuation of FVH3 modelled debt securities outsourced to the third party, and determined the impact of any identified control exceptions; • obtained the bridging letter for the period 1 October 2022 to 31 December 2022 to confirm that the controls over the valuation of FVH3 modelled debt securities were operating effectively during the period; 	<p>Based on the procedures performed we are satisfied that the valuation of FVH3 modelled debt securities in the non-profit and shareholder funds is not materially misstated.</p>

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<p>We consider that the key risks related to FVH3 valuation of modelled debt securities to be the (i) use of complex valuation methodologies as opposed to observable prices; (ii) significant judgements involved in setting the spread above risk-free rates; (iii) the subjectivity surrounding the selection of the comparable bonds to derive that spread and (iv) reasonableness of credit ratings.</p> <p>Additionally, the valuation of these modelled debt securities for the Company has been outsourced by the Company's OSP to a separate third party which increases the risk of valuation error due to potential limitation of management's oversight over the valuation processes for these financial investments.</p>	<ul style="list-style-type: none"> • inspected evidence of the operation of management's oversight controls over the OSPs and the third party they outsourced to; • understood the valuation process of FVH3 modelled debt securities that was outsourced by the Company's OSP to a separate third party and assessed the appropriateness of any methodology and assumption changes during the year, including an impact of the current economic volatility on economic assumptions; • engaged EY valuation specialists to evaluate the appropriateness of the valuation methodology and to calculate an independent range of reasonable values for a sample of modelled debt securities using an independent valuation model and considered reasonable alternative key assumptions based on comparable securities; • validated the accuracy of security related inputs to the valuation of modelled debt securities by tracing a sample of inputs to the underlying agreements and documentation; • performed independent calibration on securities by reviewing the implied rate and sector credit spreads to validate the reasonableness of credit ratings used in the comparable values assessment; and • considered the downgrade of credit ratings or changes of spread in management's credit watchlist and known market risks in our independent comparable values assessment. 	
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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 Company to be £39.3m (2021: £36.0m), which is 2% (2021: 2%) of closing net assets (2021: opening net assets). The primary stakeholders of the Company are its shareholders (primarily concerned with capital surplus as a means of the Company providing cash to the parent company), the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') as regulators (primarily focused on balance sheet strength and solvency), and policyholders (whose main interest is solvency as it reflects the ability to pay claims). Given the focus of these stakeholders, we have determined net assets as the most appropriate basis for setting materiality. Net asset correlates with one of the Company's Key Performance Indicators, Capital Resources, albeit these are non-GAAP measures (refer to page 4).

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During the course of our audit, we reassessed initial materiality of £40.9m which was based on forecast net assets. We decreased our materiality to £39.3m to reflect the final net assets as at 31 December 2022. We considered the impact of this on the extent of our audit procedures.

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 Company's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our materiality, namely £19.7m (2021: £18.0m). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

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 £2.0m (2021: £1.8m), 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, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves 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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company 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 PRA and the FCA.
- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit 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 its Committees; and gained an understanding of the Company's approach to governance, demonstrated by the Board's review of the Company's risk management framework ('RMF') and internal control processes.
- We assessed the susceptibility of the Company's 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. Our procedures over the Company's control environment included assessment of the consistency of operations and controls in place within the Company and the OSPs as they continued to operate hybrid working throughout 2022.
- The fraud risk including management override was considered to be higher within the valuation of insurance contract liabilities. We considered management override risk to be higher in this area due to the significant judgments and estimates involved.

Our procedures, as detailed in the key audit matters above included:

- Reviewing accounting estimates for evidence of management bias. Supported by our actuarial team and specialists, we assessed if there were any indicators of management bias in the valuation of insurance contract liabilities;
 - Testing the appropriateness of journal entries recorded in the general ledger, with a focus on non routine revenue manual journals; and
 - Evaluating the business rationale for significant and/or unusual transactions.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the Company's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with the PRA and FCA.
 - The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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


Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Company on 30 September 2004 to audit the financial statements for the year ending 31 December 2004 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 19 years, covering the years ending 31 December 2004 to 31 December 2022.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- 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.

DocuSigned by:



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Neeta Ramudaram (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

20 March 2023

PHOENIX LIFE LIMITED

Statement of comprehensive income
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Gross premiums written		5,555	6,463
Less: premiums ceded to reinsurers	5	(1,527)	(1,940)
Net premiums written		<u>4,028</u>	<u>4,523</u>
Fees and commissions	6	153	173
Total revenue, net of reinsurance payable		<u>4,181</u>	<u>4,696</u>
Net investment (expense) / income	7	(10,500)	1,903
Net income		<u>(6,319)</u>	<u>6,599</u>
Policyholder claims		(2,934)	(2,808)
Less: reinsurance recoveries		971	766
Change in insurance contract liabilities		7,517	(3,337)
Change in reinsurers' share of insurance contract liabilities		(652)	1,055
Transfer from / (to) unallocated surplus		144	(20)
Net policyholder claims and benefits incurred		<u>5,046</u>	<u>(4,344)</u>
Change in investment contract liabilities		2,315	(2,789)
Change in reinsurers' share of investment contract liabilities		(645)	848
Amortisation	13	(11)	(12)
Other operating expenses	8	(629)	(503)
Total operating expenses		<u>6,076</u>	<u>(6,800)</u>
Loss before finance costs and tax		<u>(243)</u>	<u>(201)</u>
Finance costs	11	(11)	(15)
Loss for the year before tax		<u>(254)</u>	<u>(216)</u>
Tax credit / (charge) attributable to policyholders' returns	12	121	(30)
Loss for the year before tax attributable to owners		<u>(133)</u>	<u>(246)</u>
Tax credit	12	119	5
Less: tax attributable to policyholders' returns		(121)	30
Tax (charge) / credit attributable to owners		(2)	35
Loss for the year attributable to owners		<u>(135)</u>	<u>(211)</u>
Other comprehensive income		-	-
Total comprehensive expense for the year attributable to owners		<u>(135)</u>	<u>(211)</u>

PHOENIX LIFE LIMITED

Statement of financial position - assets

as at 31 December 2022

	Notes	As at 31 December 2022 £m	As at 31 December 2021 £m
ASSETS			
Intangible assets	13	88	99
Investment property	14	404	461
Subsidiaries held for strategic purposes	15	32	32
Investment in associates	16	256	327
Financial assets			
Loans and deposits	17	3	4
Derivatives	18	501	1,201
Equities		275	196
Debt securities		22,342	26,070
Subsidiaries held for investment purposes	19	20,327	24,670
Collective investment schemes		6,931	8,350
Reinsurers' share of investment contract liabilities		6,545	7,051
		56,924	67,542
Insurance assets			
Reinsurers' share of insurance contract liabilities	28	2,771	3,423
Reinsurance receivables		65	49
Insurance contract receivables		5	7
		2,841	3,479
Deferred tax assets	23	42	-
Current tax receivable	23	52	43
Deferred acquisition costs		40	39
Prepayments and accrued income	24	139	98
Other receivables	25	1,120	360
Cash and cash equivalents		242	409
Total assets		62,180	72,889

PHOENIX LIFE LIMITED

Statement of financial position – equity and liabilities

as at 31 December 2022

	Notes	As at 31 December 2022 £m	As at 31 December 2021 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	26	69	69
Share premium		1	1
Other reserves	27	1,310	1,177
Retained earnings		584	719
Total equity		1,964	1,966
Liabilities			
Insurance contract liabilities			
Liabilities under insurance contracts	28	31,664	39,144
Unallocated surplus		453	597
		32,117	39,741
Financial liabilities			
Investment contracts		22,255	25,402
Borrowings	29	46	50
Deposits received from reinsurers		211	287
Derivatives	18	1,055	226
Other financial liabilities	30	3,637	4,282
		27,204	30,247
Provisions	31	28	23
Deferred tax liabilities	23	39	117
Reinsurance payables		13	11
Payables related to direct insurance contracts		624	580
Accruals and deferred income	32	33	33
Other payables	33	158	171
Total liabilities		60,216	70,923
Total equity and liabilities		62,180	72,889

On behalf of the Board


P Mayes
Director

20 March 2023

PHOENIX LIFE LIMITED

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

	Share capital (note 26) £m	Share premium £m	Other reserves (note 27) £m	Retained earnings £m	Total £m
At 1 January 2022	69	1	1,177	719	1,966
Loss for the year	-	-	-	(135)	(135)
Total comprehensive expense for the year	-	-	-	(135)	(135)
Capital contribution received (note 27)	-	-	508	-	508
Capital contribution repayment (note 27)	-	-	(375)	-	(375)
At 31 December 2022	69	1	1,310	584	1,964

	Share capital (note 26) £m	Share premium £m	Other reserves (note 27) £m	Retained earnings £m	Total £m
At 1 January 2021	69	1	802	930	1,802
Loss for the year	-	-	-	(211)	(211)
Total comprehensive expense for the year	-	-	-	(211)	(211)
Capital contribution received (note 27)	-	-	375	-	375
At 31 December 2021	69	1	1,177	719	1,966

Of the above, £1,894m (2021: £1,693m) is considered distributable.

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Statement of cash flows
 for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Cash absorbed by operations	34	(319)	(365)
Taxation paid		(2)	(6)
Net cash flows from operating activities		<u>(321)</u>	<u>(371)</u>
Cash flows from investing activities			
Loan repayment from parent company	17	-	202
Dividend received from subsidiary		33	14
Net cash flows from investment activities		<u>33</u>	<u>216</u>
Cash flows from financing activities			
Capital contribution repayment	27	(375)	-
Capital contribution received	27	508	375
Repayment of borrowings	29	(12)	(212)
Interest paid		-	(14)
Net cash flows from financing activities		<u>121</u>	<u>149</u>
Net decrease in cash and cash equivalents		(167)	(6)
Cash and cash equivalents at the beginning of the year		409	415
Cash and cash equivalents at the end of the year		<u>242</u>	<u>409</u>

Notes to the Financial Statements

1. Basis of preparation

The financial statements for the year ended 31 December 2022, set out on pages 41 to 108 were authorised by the Board of Directors for issue on 20 March 2023.

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

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

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

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

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

Going Concern

The Board has considered financial projections which demonstrate the ability of the Company to withstand market shocks in a range of scenarios, including very severe ones. In assessing the appropriateness of the going concern basis, the Board considered base case and plausible downside liquidity and solvency projections. The downside scenario used reflected the impacts of market disruption in the latter part of the current financial year and applied a stress period which incorporated a UK Sovereign downgrade amongst other appropriate stress calibrations.

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

Statement of compliance

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

2. Accounting Policies

a) Critical accounting estimates and judgements

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

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

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Financial statement area	Critical accounting estimates, judgements and assumptions	Related notes
Adjusted operating profit	<p>Adjusted operating profit is the Company's non-GAAP measure of performance. The Company is required to make judgements as to the appropriate longer-term rates of investment return for the determination of adjusted operating profit, based on risk-free yields at the start of each financial year, and as to what constitutes an operating or non-operating item in accordance with the accounting policy detailed in (b).</p> <p>Profits on the initial recognition of new business, including the writing of bulk purchase annuities, are included in adjusted operating profit on a basis using valuation assumptions consistent with the Company's expected longer term asset allocation attributable to that business. The impact on profit of subsequent changes in planned or actual asset allocation are excluded from adjusted operating profit.</p>	4
Insurance and investment contract liabilities	<p>Insurance and investment contract liabilities use economic assumptions taking into account market conditions at the valuation date as well as non-economic assumptions such as future expenses, longevity and mortality which are set based on past experience, market practice, regulations and expectations about future trends. Due to the level of annuities written by the Company, it is particularly exposed to longevity risk. At 31 December 2022, there were no adjustments made to the longevity assumptions to specifically allow for the impact of climate change on annuitant mortality. Further details as to how assumptions are set and of the sensitivity of the Company's results to annuitant longevity and other key insurance risks are set out in note 36.</p> <p>Insurance and investment contract liability accounting is discussed in more detail in accounting policies (r) and (s) with further detail of the key assumptions made in determining insurance and investment contract liabilities included in the notes to the accounts. 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.</p> <p>The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Details of sensitivity analysis carried out is set out within note 36.</p>	28
Fair value of financial assets and liabilities	<p>The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies (l) and (t) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates and the notes provide further disclosures on fair value hierarchy and assumptions used to determine fair values.</p> <p>In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key assumptions used in the valuation of these financial instruments. Details of the sensitivity analysis performed is set out within note 21.</p> <p>Longevity contracts classified as derivatives are valued by models on actuarial bases. These are unobservable inputs and are classified as Level 3 financial instruments.</p>	21

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	The Company has two categories of investment in subsidiaries: strategic subsidiaries and investment subsidiaries. Strategic subsidiaries are operating companies which support the Group and the Company's strategic objectives, as well as certain non-trading and dormant companies. Investment subsidiaries are held to generate capital or income growth through holding investments.	
Investment subsidiaries	in The accounting for both types of subsidiaries, including determining whether the company has control over its subsidiaries for investment purposes, is discussed in more detail in accounting policy (j).	15, 19
	Where a subsidiary is classed as a subsidiary for investment purposes it is subject to fair value accounting and the factors set out in the critical estimate above.	

How climate risk affects our accounting estimates and judgments

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

The majority of the Company's financial assets are held at fair value and use quoted market prices or observable market inputs in their valuation. The use of quoted market prices and market inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk. For the valuation of level 3 financial instruments, there are no material unobservable inputs that the Directors consider particularly sensitive to climate risk. Note 36 provides further risk management disclosures in relation to financial risks including sensitivities in relation to credit and market risk.

Insurance and investment contract liabilities use economic assumptions taking into account market conditions at the valuation date as well as non-economic assumptions such as future expenses, longevity and mortality which are set based on past experience, market practice, regulations and expectations about future trends. Due to the level of annuities written by the Company, it is particularly exposed to longevity risk. At 31 December 2022 there are no adjustments made to the longevity assumptions to specifically allow for the impact of climate change on annuitant mortality. Further details as to how assumptions are set and of the sensitivity of the Company's results to annuitant longevity and other key insurance risks are set out in note 36.

The assessment of impairment for intangible assets is based on value in use calculations. Value in use represents the value of future cash flows and uses the Company's five year annual operating plan and the expectation of long term economic growth beyond this period. The five year annual operating plan reflects management's current expectations on competitiveness and profitability, and reflects the expected impacts of the process of moving towards a low-carbon economy. No impairment indicators were identified in relation to the impacts of climate related risks on the Company's competitiveness and profitability.

b) Adjusted operating profit

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

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

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

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Adjusted operating profit excludes the impact of the following items:

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

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

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

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

c) Income recognition

Gross premiums

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

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis. Reinsured premiums include fixed monthly payments made under longevity swap arrangements.

Reinsurance premiums include amounts receivable as refunds of premiums in cases where the Company cancels arrangements for the reinsurance of risk to another insurer.

Fee and commission income

Fee and commission income relates to the following:

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

Net investment income

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

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

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

d) Transfers of business

Where the Company participates in a transfer of insurance business scheme under Part VII of the Financial Services and Markets Act 2000 and the ultimate shareholders remain the same, the transaction constitutes business combinations involving entities or businesses under common control. IFRS does not prescribe the treatment of such transfers. Accordingly, on initial recognition, the transferred assets and liabilities are measured at the carrying value in the transferring company and the resulting gain or loss is recognised as income or an expense in the Statement of comprehensive income.

e) Benefits, claims and expenses recognition***Gross benefits and claims***

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

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Reinsured claims include variable monthly claim recoveries received under longevity swap arrangements.

Finance costs

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

Change in unallocated surplus

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

Expenses under arrangements with reinsurers

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

f) Income tax

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

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

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

g) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid. Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

h) Intangible assets**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 Company's accounting policies for such contracts is recognised in the financial statements 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 amortisation period and method is reviewed annually.

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

i) Investment property

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

j) Investment in subsidiaries

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

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

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

Investments in shares in subsidiaries held for strategic purposes are carried in the Statement of financial position at cost less impairment. At each reporting date for subsidiaries held at cost less impairment, the Company assesses whether there are any indications of impairment or reversal of impairment. When such indications exist, an impairment test is carried out by comparing the carrying value of the investment against the estimate of the recoverable amount, which represents the higher of value in use or fair value less costs of disposal. The value in use will be calculated with reference to IFRS net asset value, as this approximates fair value. Impairments and reversal of impairments are recognised as income or an expense in the Statement of comprehensive income in the period in which they occur.

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

k) Investments in associates and joint ventures

Investments in associates and joint ventures that are held for investment purposes are accounted for under *IAS 39 Financial Instruments: Recognition and Measurement* as permitted by *IAS 28 Investments in Associates and Joint Ventures*. These are measured at fair value through profit or loss. There are no investments in associates and joint ventures which are of a strategic nature.

l) Financial assets

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

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

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

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

Impairment of financial assets

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

Derecognition and offset of financial assets and liabilities

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

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

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

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

Fair value estimation

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

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

Stock lending

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

Collateral

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

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

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

m) Reinsurance***Reinsurance ceded***

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

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

Reinsurance premiums payable in respect of certain reinsured individual and group annuity contracts are payable in quarterly instalments until the year 2053. Due to the period of time over which reinsurance premiums are payable under these arrangements, the liability for the outstanding reinsurance premiums is measured at fair value through profit and loss using a discounted cash flow model and pre-tax risk-free discount rate and is recognised as 'deposits received from reinsurers' in the Statement of financial position. The unwinding of the discount calculated at the original effective date is included as a charge within finance costs in the Statement of comprehensive income. The impact of revaluation to a current discount rate is recognised as an item of income or expense within fair value gains or losses.

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

Reinsurance accepted

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

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

n) Deferred acquisition costs

Acquisition costs, comprising all direct and indirect costs arising from the conclusion of non-profit insurance and investment contracts are deferred as an explicit acquisition cost asset. This asset is amortised over the period in which the costs are expected to be recoverable out of margins from matching revenues from related policies and in accordance with the pattern of such margins.

Deferred acquisition cost amortisation is expensed within other operating expenses in the Statement of comprehensive income. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the period end.

o) Cash and cash equivalents

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

p) Share capital and capital contributions

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

q) Classification of contracts

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

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

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

Longevity contracts which do not meet the definition of insurance contracts are classified as derivatives and are valued by models on actuarial bases.

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

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

r) Insurance contracts and investment contracts with DPF

Insurance liabilities

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

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

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

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

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

The realistic liability for any contract is equal to the sum of the with-profit bonus reserve and the cost of future policy-related liabilities. The with-profit bonus reserve for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method. In calculating the realistic liabilities, account is taken of the future management actions consistent with those set out in the Principles and Practices of Financial Management.

The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period. Non market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends. Where policyholders have valuable guarantees, options or promises in respect of the with-profit business, these costs are generally calculated using a stochastic model. The principal assumptions are given in note 28.

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

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

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

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

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The value of PVFP is determined in a manner consistent with the measurement of liabilities. In particular, the methodology and assumptions involve adjustments to reflect risk and uncertainty, which are based on current estimates of future experience and current market yields and allow for market consistent valuation of any guarantees or options within the contracts. The value is also adjusted to remove the value of capital backing the non-profit business if this is included in the realistic calculation of PVFP. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 28.

Embedded derivatives

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

Liability adequacy

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

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

Unallocated surplus

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

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

s) Investment contracts without DPF

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

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

The Company has treaties in place with third party insurance companies to provide reinsurance in respect of liabilities that are linked to the performance of funds maintained by those companies. The contracts in question do not transfer significant insurance risk and therefore are classified as financial instruments and are valued at fair value through profit and loss. These contracts are disclosed under Reinsurers' share of investment contract liabilities in the Statement of financial position.

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

t) Financial liabilities

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

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

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

u) Borrowings

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

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

v) Provisions and contingent liabilities

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

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

w) Payables related to direct insurance contracts

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

x) Reimbursement Assets

A reimbursement asset is recognised on the Statement of financial position as an asset when, and only when, the reimbursement is virtually certain to be received. In the Statement of comprehensive income the reimbursement is netted off against the expense to which it relates or reported as other income.

y) Events after the reporting period

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

3. New and amended accounting standards**New accounting pronouncements not yet effective**

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

IFRS 17 Insurance Contracts (1 January 2023)

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

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

In June 2022, the IFRS Interpretations Committee (IFRIC) provided its final agenda decision on the 'Transfer of Insurance Coverage under a Group of Annuity Contracts – IFRS 17', a non-objection from the International Accounting Standards Board was provided in July 2022. The methodology for coverage units determined by the Group and set out in the 'Coverage units' section below is compliant with this IFRIC final agenda decision.

Identifying contracts in scope of IFRS 17

IFRS 17 applies to insurance contracts (including reinsurance contracts) an entity issues, reinsurance contracts an entity holds and investment contracts with discretionary participation features an entity issues provided it also issues insurance contracts. The scope of IFRS 17 for the Company is materially consistent with that of IFRS 4. Investment contracts without discretionary participation features (DPF) will be measured under IFRS 9. The following requirements apply to reinsurance contracts unless stated otherwise.

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IFRS 17 sets out criteria for when an investment component is distinct and may be separated from the host insurance contract. Following the application of these criteria the Company has concluded for the majority of its hybrid investment contracts with DPF within the scope of IFRS 17, the unit-linked component does not meet the definition of a distinct investment component so will no longer be accounted for as a financial instrument and will fall within the scope of IFRS 17. Hybrid investment contracts with DPF are those contracts which allow policyholders to invest in both with-profit and unit-linked fund options within a single contract.

Level of aggregation

IFRS 17 requires that contracts are divided into groups for the purposes of recognition and measurement. Portfolios of contracts are identified by grouping together contracts which have similar risks and are managed together. These groups are then further divided into cohorts based on their expected profitability. Contracts which are onerous at inception cannot be grouped with contracts which are profitable at inception. Contracts which are issued more than one year apart are not permitted to be included within the same cohort, although there is some relief from this requirement for business in-force at the date of transition under the transitional arrangements.

Measurement

The standard introduces three measurement approaches, of which two, the general model and the variable fee approach, are applicable to the Company's business. The main features of these models are the measurement of an insurance contract as the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment, remeasured at each reporting period using current assumptions, and a contractual service margin ('CSM'). Reinsurance contracts held are measured using the general model, irrespective of the measurement model applied to the underlying contracts reinsured.

The risk adjustment represents the compensation the Company requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk as the obligations under the insurance contract are fulfilled.

The CSM represents the unearned profit of a group of insurance contracts and is recognised in the Statement of comprehensive income as the insurance and/or investment service is provided to the customer using coverage units. Coverage units are a measurement of the quantum of service provided across the life of the contract and are used to measure the service provided in the reporting period and release a corresponding amount of profit to the Statement of comprehensive income. If a group of contracts becomes loss-making after inception the loss is recognised immediately in the Statement of comprehensive income. This treatment of profits and losses in respect of services is broadly consistent with the principles of IFRS 15 and IAS 37 applicable to other industries. For reinsurance contracts held, the CSM represents the net gain or net loss of the contract and is recognised in the Statement of comprehensive income as the service is provided using coverage units.

Under the general model the CSM is adjusted for non-economic assumption changes relating to future periods. For certain contracts with participating features the variable fee approach is applied, this allows changes in economic assumptions and experience to adjust the CSM as well as non-economic assumptions, reflecting the variable nature of the entity's earnings driven by investment returns.

Significant judgements and estimates**Contract boundaries**

Under IFRS 17, the measurement of a group of contracts includes all future cash flows within the boundary of each contract in the group. Cash flows are within the boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or in which the Company has a substantive obligation to provide services to the policyholder.

The adoption of IFRS 17 results in three main areas where contract boundaries differ from current practice:

- Some unit-linked and with-profit contracts contain a guaranteed annuity option, which allows the policyholder to convert the maturity benefit to an immediate annuity at a predetermined rate. The Company currently places a value on the guaranteed annuity option at maturity, but does not include within its measurement the cash flows associated with immediate annuity until the option is exercised. Under IFRS 17, the cash flows related to the immediate annuity will fall within the boundary of the contract as the Company does not have the practical ability to reprice the contract on maturity.
- The Company has issued renewable term assurance policies with varying terms. Where the Company has the practical ability to reassess the risks of the policyholders at individual contract or portfolio level the contract boundary ends at the earliest renewal date and the renewal will be treated as a new contract. Where the Company does not have the practical ability to reassess the risk, future renewals of these contracts on their guaranteed terms will be within the contract boundary.

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- Some of the Company's reinsurance contracts cover underlying contracts issued on a risk-attaching basis and provide unilateral rights to both the Company and the reinsurer to terminate the attachment of new contracts at any time by giving notice within a specified time period, for example three months. Currently the cash flows included in the measurement of reinsurance contracts considers only the underlying contracts ceded at the valuation date. However, under IFRS 17, the contract boundary includes underlying contracts expected to be issued and ceded during the period from the valuation date to the end of the reinsurance notice period.

Discount rates

The Company will determine risk-free discount rates using the current market prices of interest rate swaps in each currency where the market is deep, liquid and transparent. The Company primarily writes contracts denominated in Pounds Sterling and Euros. The yield curve will be interpolated between the last available market data point and an ultimate forward rate, which reflects long-term real interest rate and inflation expectations.

The discount rates for annuity business will be determined by a 'top-down' approach using a reference portfolio of assets to determine an uplift to be applied to the risk-free discount rate curve. The discount rates for unit-linked business and with-profit business will be determined by a 'bottom-up' approach, using a risk-free discount rate curve adjusted to reflect the characteristics of the liabilities such as illiquidity.

With-profit inherited estate

The Company has a number of with-profit funds where surpluses are shared between the policyholders and the shareholders. All such funds are closed to new business. These funds typically have an inherited estate, being a surplus of assets over those needed to meet the liabilities of current policyholders. As these funds are closed to new business the surplus will be allocated to existing policyholders and the Company has determined it appropriate to allocate the expected future payments from the inherited estate to specific groups of contracts within the measurement of the best estimate cash flows. This results in the shareholders share of the inherited estate being recognised through the CSM. At transition, to the extent that services have been provided in previous periods, an element of the inherited estate will be recognised in Retained Earnings, with the remainder recognised within the CSM and released to the Statement of comprehensive income in future periods in line with coverage units. The adoption of IFRS 17 will not change the point at which the shareholder will become entitled to receive its share of the inherited estate, which will continue to be at the point where bonuses are declared to policyholders.

Risk adjustment

The risk adjustment for non-financial risk will reflect the compensation that the Company requires for bearing non-financial risk. The Company will apply a confidence level technique. The risk adjustment will be allocated to groups of contracts based on an analysis of the risk profiles of the groups, reflecting the effects of the diversification benefits between Group entities. The Company will determine the risk adjustment using a one year time horizon, consistent with the time horizon used for Solvency II, the key metric underlying how the Company is managed.

To determine the risk adjustment for reinsurance contracts, the Company will apply its approach both gross and net of reinsurance and determine the amount of risk being transferred to the reinsurer as the difference between the two results.

Coverage units

The CSM of a group of contracts is recognised in the Statement of comprehensive income to reflect services provided in the period. The number of coverage units is updated at each valuation date and reflects the quantity of services provided by the contracts within a group considering both quantity of benefits provided and the length of the expected coverage period.

The Company will determine the quantity of benefits, and therefore the coverage units as follows:

Type of business	Coverage unit (quantity of benefits)
Term life	Sum assured in force
Endowment	Sum assured in force
Whole of life	Sum assured in force
Other protection products	Sum assured in force
Immediate annuity	Annuity payments in each period
Unit linked	Annual Management Charge plus insurance charges
Conventional with-profits (CWP) & Unitised with-profits (UWP)	Maximum of the guaranteed benefit and asset share

Reinsurance contracts held will use coverage units consistent with the underlying policies reinsured.

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Transition

IFRS 17 requires the standard to be applied retrospectively. Where this is assessed as impracticable the standard allows the application of a modified retrospective approach or a fair value approach to determine the contractual service margin.

The primary business that will be measured using the fully retrospective approach are:

- Immediate annuities vesting without guarantees, post 1 January 2016;
- External Bulk Purchase Annuities written since 2018, and their associated reinsurance contracts. Bulk Purchase Annuities, and their associated reinsurance contracts, related to the Group's pension schemes will continue to be eliminated on consolidation and the liabilities of the scheme reported under IAS 19 at Group level.

The majority of the Company's business will be transitioned using the fair value approach.

Key factors considered in determining whether the fully retrospective approach is impracticable include:

- The ability to obtain assumptions and data at the required level of granularity, without the introduction of material use of hindsight, particularly in relation to contracts within acquired businesses and where the Company's financial reporting metrics did not require such information
- The availability and usability of historic data given the significant integration work performed by the Company on both its policy administration and actuarial modelling systems where re-platforming from legacy systems onto a unified platform has been carried out
- The significant level of regulatory change experienced by the insurance industry, such as Solvency II, which impacts on the level of change undergone by both legacy and current policy administration and actuarial modelling systems

Fair value approach

The fair value approach determines the CSM (or loss component) at 1 January 2022 as the difference between the fair value of a group of contracts and the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment.

The fair value determined by the Company will use cash flows with contract boundaries consistent with IFRS 17 requirements and be broadly consistent with those used to determine the IFRS 17 liabilities. The measurement of the fair value of contracts will include items taken into consideration by a market participant but which are not included in the IFRS 17 measurement of contracts, such as a risk premium to reflect a market participant's view of uncertainty inherent in the contract cash flows being valued and a profit margin.

For groups of contracts measured using the fair value approach, the cohorts will contain contracts issued more than one year apart.

Presentation and disclosure

The introduction of IFRS 17 will simplify the presentation of the statement of financial position. It requires the presentation of groups of insurance (or reinsurance) contracts that are in an asset position separately from those in a liability position. All rights and obligations arising from a portfolio of contracts will be presented within the insurance or reinsurance contract balance, as such, balances such as payables related to direct insurance contracts and reinsurance receivables will no longer be presented separately.

The presentation of the Statement of comprehensive income will change more significantly with IFRS 17 setting out how components of the profitability of contracts are disaggregated into an insurance service result and insurance finance income/expense. The insurance service result reflects the consideration earned in exchange for the provision of services in relation to the group of IFRS 17 contracts issued. The insurance financial income/expense reflects changes in the carrying amount of the group of insurance contracts that relate to financial risks. It comprises the effect of the time value of money as well as the effect of financial risks and changes in financial risks.

IFRS 17 also requires extensive disclosures, both quantitative and qualitative, in relation to:

- Amounts recognised in the financial statements, including reconciliations showing how the net carrying amounts of contracts changed during the period;
- Significant judgements and changes in these judgements; and
- The nature and extent of risks that arise from contracts within the scope of IFRS 17.

Impact assessment

The total profit recognised over the lifetime of contracts within the scope of IFRS 17 will not change from the total profit recognised under IFRS 4 and will continue to be recognised in the Statement of comprehensive income. The pattern of profit emergence under IFRS 17 will primarily be driven by the timing of the recognition of the risk adjustment and CSM. The risk adjustment is released to the Statement of comprehensive income as the related risk expires and the CSM is released as services are provided.

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

Implementation project status

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

IFRS 9 Financial Instruments (1 January 2023):

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

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

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

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

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

- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements) (1 January 2023):** The amendments are intended to assist entities in deciding which accounting policies to disclose in their financial statements and requires an entity to disclose 'material accounting policy information' instead of its 'significant accounting policies'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. These amendments are not expected to have any impact on the Company.
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) (1 January 2023):** The definition of "accounting estimate" in the standard has been updated and replaced. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The Board has retained the concept of changes in accounting estimates in the Standard by including a number of clarifications. These amendments are not expected to have any impact on the Company.

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- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes) (1 January 2023):** The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The IASB expects that the amendments will reduce diversity in reporting and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognising deferred tax for temporary differences. There will potentially be some additional disclosures required in relation to the Company's leasing arrangements as a result of implementing these amendments.
- **Classification of Liabilities as Current and Non-current (Amendments to IAS 1 Presentation of Financial Statements) (1 January 2024):** 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. These amendments are not expected to have any impact on the Company.

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

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

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

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

4. Adjusted operating Profit

Reconciliation of adjusted operating profit to loss before tax attributable to owners

	2022	2021
	£m	£m
Adjusted operating profit	545	395
Investment return variances and economic assumption changes on long-term business	(581)	(590)
Amortisation of acquired in-force business	(11)	(12)
Other non-operating items	(86)	(36)
Finance costs attributable to owners	-	(3)
Loss before tax attributable to owners	(133)	(246)

Key drivers of adjusted operating profit

	2022	2021
	£m	£m
Expected returns, including the owners' share of with-profits bonus	238	217
Changes in demographic assumptions	47	(47)
Change in demographic experience	(101)	(44)
Changes in model and methodology	102	(20)
New business	225	273
Other operating variances	34	16

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Other non-operating items

Non-operating items other than investment return variances include:

- £(23)m (2021: £nil) in respect of costs incurred from the policy migration activity to move to a single digitally enhanced outsourcer platform.
- £(19)m (2021: £nil) in respect of costs incurred from work to deliver substantial enhancements to the credit component of the Internal Model for setting the Company's capital requirements.
- £(16)m (2021: £(11)m) in respect of costs incurred from ongoing work to deliver improvements to the management and oversight of an expanding credit asset portfolio.
- £(13)m (2021: £(15)m) in respect of costs incurred from ongoing work to complete a Part VII transfer of Irish branch business to a fellow group company.
- £(9)m (2021: £(5)m) in respect of costs incurred from IFRS17 implementation activity.
- £(4)m (2021: £nil) in respect of costs incurred from ongoing work to complete a Part VII transfer of the business of fellow group companies into the Company, anticipated 30 September 2023.
- £(2)m (2021: £(5)m) in respect of costs incurred from ongoing work to deliver a long term strategic solution for the production of policy data into the actuarial modelling platform.

Investment return variances

The investment return variances and economic assumption changes excluded from the long-term business adjusted operating profit largely arise due to differences in the IFRS reporting basis compared to the hedged Solvency II position, after allowance for risk capital. Losses have been experienced on hedging positions held by the Company, principally as a result of rising yields and increasing inflation in the year. Continued strategic asset allocation initiatives undertaken by the Company, including investment in higher yielding assets, together with gains arising on equity hedges as markets fell over the period, provided a partial offset to the adverse variances experienced.

Calculation of the long-term investment return

The long-term nature of much of the Company's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Company focuses instead on an adjusted operating profit measure that incorporates an expected return on investments supporting its long-term business. The methodology for the determination of the expected investment return is explained below:

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

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to a swap curve, plus 36bps (2021: 10bps). A risk premium is added to the risk-free yield according to asset type as shown below.

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

5. Premiums ceded to reinsurers

The Company has quota share reinsurance and swap agreements with reinsurers in respect of longevity risk and investment risk associated with pension liabilities acquired via bulk purchase annuity transactions and the Pearl Pension Scheme 'Buy-in'. Premiums ceded under these agreements during the year totalled £1,083m (2021: £1,304m).

Premiums ceded to reinsurers comprise:

	2022	2021
	£m	£m
Quota share reinsurance premiums	927	1,277
Longevity swap payments	571	639
Reinsurance premiums ceded under on-going reinsurance arrangements	29	24
	<u>1,527</u>	<u>1,940</u>

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6. Fees and commissions

	2022	2021
	£m	£m
Annual management charges ("AMC")	136	166
Non AMC investment contract income	16	6
Investment contract income	152	172
Movement in deferred income	1	1
Total fees and commissions	153	173

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

Non AMC investment contract income represents fees charged in the running of investment contracts including the provision of benefits.

Movement in deferred income comprises the recognition of the consideration received at inception of investment contracts in line with the performance of the provision of investment management services over the expected life of the contracts.

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

7. Net investment (expense) / income

	2022	2021
	£m	£m
<i>Investment income</i>		
Interest income on financial assets designated at fair value through profit or loss	618	514
Dividend income	618	522
Rental income	20	18
	1,256	1,054
<i>Fair value gains/(losses) on items at fair value through profit or loss</i>		
Financial assets and liabilities:		
Derivatives held for trading	(2,060)	(558)
Designated upon initial recognition	(7,564)	(162)
Investment in subsidiaries (note 19)	(2,034)	1,477
Investment in associates (note 16)	(71)	25
Investment property (note 14)	(27)	67
	(11,756)	849
Net investment (expense) / income	(10,500)	1,903

Rental income is primarily received on investment properties.

8. Other operating expenses

	2022	2021
	£m	£m
Outsourcing expenses	302	207
Investment management expenses and transaction costs	230	161
Annual management charges payable under reinsurance arrangements	15	17
	547	385
Acquisition costs incurred	83	124
Acquisition costs deferred	(3)	(8)
Amortisation of deferred acquisition costs	2	2
Total other operating expenses	629	503

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Employee costs

The Company has no employees. Administrative services are provided by Phoenix Group Management Services Limited (formerly known as Pearl Group Management Services Limited) ("PGMS"), Pearl Group Services Limited ("PGS"), and Pearl Group Management Services (Ireland) Limited ("PGMSI"), fellow group companies.

9. Directors' remuneration

	2022	2021
	£000	£000
Remuneration (executive and non-executive Directors remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	998	1,026
Share option schemes and other long-term benefits	840	552
Compensation for loss of office	-	3
Contributions to money purchase pension schemes	1	3
	<u>1,839</u>	<u>1,584</u>

	2022	2021
	Number	Number
Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	3	1
Number of Directors who exercised share options during the year	5	3

	2022	2021
	£000	£000
Highest paid Director's remuneration	<u>237</u>	<u>306</u>

The highest paid Director exercised share options during the year.

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

10. Auditor's remuneration

	2022	2021
	£000	£000
Audit of the Company's financial statements	<u>1,915</u>	<u>1,806</u>

During the financial year ended 31 December 2022, Ernst & Young LLP acted as the Company's external auditor. Auditors' remuneration for services other than the statutory audit of the Company are not disclosed in the Company's financial statements since the consolidated financial statements of Phoenix Group Holdings plc, the Company's ultimate controlling party, are required to disclose fees in respect of non-audit services on a consolidated basis.

11. Finance costs

	2022	2021
	£m	£m
Interest expense		
On financial liabilities at amortised cost	-	3
On financial liabilities at fair value through profit or loss	11	12
	<u>11</u>	<u>15</u>

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

	2022 £m	2021 £m
Current tax:		
UK Corporation tax	-	(38)
Overseas tax	(1)	1
	(1)	(37)
Adjustment in respect of prior years	1	25
Total current tax	-	(12)
Deferred tax:		
Origination and reversal of temporary differences	(121)	4
Adjustment in respect of prior years	4	1
Change in the rate of UK corporation tax	(2)	2
Total deferred tax	(119)	7
Total tax credit	(119)	(5)

	2022 £m	2021 £m
Attributable to:		
- policyholders	(121)	30
- owners	2	(35)
Total tax credit	(119)	(5)

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

Reconciliation of tax credit

	2022 £m	2021 £m
Loss for the year before tax	(254)	(216)
Tax credit / (charge) attributable to policyholders' returns	121	(30)
Loss before tax attributable to owners	(133)	(246)
Tax at standard UK rate of 19% (2021: 19%)	(25)	(47)
Non taxable income and gains	(5)	(2)
Adjustment to owners' tax in respect of prior years	2	22
ERM restructure – write off of deferred tax	-	(21)
Profits taxed at rates other than 19%	32	10
Deferred tax rate change	(2)	2
Other	-	1
Tax charge / (credit) attributable to owners	2	(35)
Tax (credit) / charge attributable to policyholders' returns	(121)	30
Total tax credit	(119)	(5)

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13. Intangible assets

	Acquired in-force business	
	2022 £m	2021 £m
Cost		
At 1 January and at 31 December	388	388
Amortisation		
At 1 January	(289)	(277)
Amortisation charge for the year	(11)	(12)
At 31 December	(300)	(289)
Carrying amount		
At 31 December	88	99
Amount recoverable after 12 months	78	88

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 remaining estimated life of the contracts is approximately 18 years.

14. Investment property

	2022 £m	2021 £m
At 1 January	461	473
Additions	-	5
Improvements	5	3
Disposals	(35)	(87)
Net fair value (losses) / gains	(27)	67
At 31 December	404	461
Unrealised gains / (losses) in the period on assets held at the end of the year	(34)	33
The fair value of property can be analysed as:		
Commercial investment property	360	408
Residential property reversions	44	53

The property portfolio consists of a mix of commercial sectors, spread geographically throughout the UK.

Fair value measurement

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

Commercial investment property

The fair value of commercial investment property is based on valuations provided by external property valuation experts having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, having regard to the condition of the property and local market conditions. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ("RICS") guidelines.

The valuations are predominantly produced using an income capitalisation approach. The income capitalisation approach is based on capitalising an annual net income stream using an appropriate yield. The annual net income is based on both current and estimated future net income. The yield and future net income used is determined by considering recent transactions involving properties with similar characteristics to the property being valued. Where it is not possible to use an income capitalisation approach, for example on property with no rental income, a market comparison approach is used by considering recent transactions involving properties with similar characteristics to the property being valued. In both approaches, where appropriate, adjustments will be made by the valuer to reflect differences between the characteristics of the property being valued and the recent market transactions considered.

Residential property reversions

The residential property reversions arise from sales of the NPI Extra Income Plan. These interests in customers' properties that the Company will realise upon their death are valued using a discounted cash flow ("DCF") model based on the Company's proportion of the current open market value, discounted for the lifetimes of the

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policyholders derived from published mortality tables. The open market value is measured using RICS valuations. The individual properties are valued triennially and indexed using regional house price indices to the balance sheet date. The residential property reversions have been substantially refinanced under the arrangements with Santander described in note 29.

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

Description	Valuation technique	Significant inputs	Unobservable input value	
			2022	2021
Commercial investment property	RICS valuation	Expected income per square foot	£19.86 weighted average	£17.95 weighted average
Residential property reversions	Internally developed model and RICS valuations	Capitalisation rate	6.26% weighted average	5.35% weighted average
		Mortality rate	130% IFL92C15 (Female) 130% IML92C15 (Male)	130% IFL92C15 (Female) 130% IML92C15 (Male)
		House price inflation	3 year RPI rate plus 0.75%	3 year RPI rate plus 0.75%
		Discount rate	3 year swap rate plus 1.7% margin	3 year swap rate plus 1.7% margin
		Deferred possession rate	3.7%	3.7%

Rental income and expense

	2022 £m	2021 £m
Direct operating expenses in respect of: Investment properties that did not generate rental income during the year	-	1
Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties due:		
Not later than one year	18	18
Later than one year and no later than five years	43	45
Later than five years	54	45
Total operating lease receivables	115	108

15. Subsidiaries held for strategic purposes

	2022 £m	2021 £m
Cost		
At 1 January and at 31 December	402	402
Impairment		
At 1 January and at 31 December	370	370
Carrying amount		
At 31 December	32	32

Investments in subsidiaries held for strategic purposes are held at cost less impairment. A listing of subsidiaries held at 31 December 2022 can be found at note 40.

16. Investment in associates

	2022 £m	2021 £m
At 1 January	327	302
Fair value (losses) / gains	(71)	25
At 31 December	256	327
Dividend income received from associate	23	13

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The associate of the Company is UK Commercial Property REIT Limited ("UKCP REIT"), 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. Its registered office is PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands GY1 3QL. As at 31 December 2022, the Company held 33.73% (2021: 33.73%) of the issued share capital of UKCP REIT.

On 29 November 2018 the Company entered into four stock lending arrangements, lending equity share holdings in UKCP REIT to strategic wholly owned subsidiaries Phoenix SPV1 Limited, Phoenix SPV2 Limited, Phoenix SPV3 Limited and Phoenix SPV4 Limited ("the SPVs"). Under the arrangements the SPVs agreed to pass on any dividends received to the Company and therefore the Company continues to retain the risks and rewards of its investment in UKCP REIT, and recognise it on the Statement of Financial Position as an investment in associate.

The value of the shares lent is equal to the value of the investment in associate shown above.

There is no contractual maturity date in respect of the agreements.

As the shares of the associate are traded on an active market, the fair value measurement of the associate has been categorised as a level 1 fair value. For more information on fair value levels see note 21.

17. Loans and deposits

	2022 £m	2021 £m
Loans and deposits at amortised cost		
Loans secured on policies	3	4
Total loans and deposits	<u>3</u>	<u>4</u>
Amount recoverable after 12 months	<u>3</u>	<u>4</u>

Movements in loans to Group entities

	Parent £m	Total group loans £m
At 1 January 2022	-	-
Repayments	-	-
At 31 December 2022	<u>-</u>	<u>-</u>
At 1 January 2021	202	202
Repayments (see note 29)	(202)	(202)
At 31 December 2021	<u>-</u>	<u>-</u>

On 8 February 2021, the Company received £202m in full settlement of the loan provided to Pearl Life Holdings Limited.

18. Derivatives

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

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

The Company pledges and receives collateral in respect of its derivative positions. Further information is provided in note 20.

The Company has in place longevity swap arrangements with corporate pension schemes which do not meet the definition of insurance contracts under the Company's accounting policies. Under these arrangements the majority of the longevity risk has been passed to third parties. The derivative assets and liabilities recognised are shown below.

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The fair values of derivative financial instruments are:

	2022	2022	2021	2021
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Forward currency	22	14	24	1
Interest rate swaps	138	406	794	136
Inflation swaps	162	47	144	12
Cross currency swaps	1	401	-	-
Stock index futures	26	1	1	18
Fixed income futures	-	150	8	8
Longevity swap contracts	152	34	230	49
Other	-	2	-	2
	<u>501</u>	<u>1,055</u>	<u>1,201</u>	<u>226</u>

19. Subsidiaries held for investment purposes

	2022	2021
	£m	£m
At 1 January	24,670	25,861
Additions	23,471	18,695
Disposals	(25,895)	(20,457)
Fair value (losses) / gains	(2,034)	1,477
Transfers in from collective investment schemes	374	-
Transfers out to collective investment schemes	(259)	(906)
At 31 December	<u>20,327</u>	<u>24,670</u>

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

A listing of subsidiaries can be found at note 40.

The fair value measurements of the investment in subsidiaries are classified in accordance with the principles in note 21, and information on the valuation methodology and hierarchy is given in that note.

20. Financial instruments

IFRS 9 Financial Instruments

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

	2022	2022	2021	2021
	Fair Value	Change in	Fair Value	Change in
	£m	fair value	£m	fair value
		£m		£m
<i>Financial assets with contractual cash flows that are solely principal and interest ("SPPI") excluding those held for trading, or managed on a fair value basis</i>				
Loans and deposits	3	-	4	-
Cash and cash equivalents	242	3	409	(1)
Other receivables	1,120	-	360	-
Accrued income	36	-	13	-
All other financial assets	57,177	(11,738)	67,865	832
Total	<u>58,578</u>	<u>(11,735)</u>	<u>68,651</u>	<u>831</u>

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2022 credit ratings of financial assets with contractual cash flows that are SPPI

	AA £m	A £m	BBB £m	Non- Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	3	-	3
Cash and cash equivalents	4	215	26	-	(3)	242
Other receivables	-	-	-	1,120	-	1,120
Accrued income	-	-	-	36	-	36
	4	215	26	1,159	(3)	1,401

2021 credit ratings of financial assets with contractual cash flows that are SPPI

	AA £m	A £m	BBB £m	Non- Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	4	-	4
Cash and cash equivalents	8	362	27	-	12	409
Other receivables	-	-	-	360	-	360
Accrued income	-	-	-	13	-	13
	8	362	27	377	12	786

Expected settlement dates

	Amounts recoverable after 12 months		Amounts recoverable after 12 months	
	Total 2022 £m	2022 £m	Total 2021 £m	2021 £m
Financial assets				
Loans and deposits at amortised cost	3	3	4	3
<i>Financial assets at fair value through profit or loss</i>				
Derivatives held for trading	501	451	1,201	1,162
Designated upon initial recognition:				
Equities	275	-	196	-
Debt securities	22,342	20,895	26,070	24,673
Subsidiaries held for investment purposes	20,327	-	24,670	-
Collective investment schemes	6,931	-	8,350	-
Reinsurers' share of investment contract liabilities	6,545	-	7,051	-
	56,924	21,349	67,542	25,838

	Amounts due for settlement after 12 months		Amounts due for settlement after 12 months	
	Total 2022 £m	2022 £m	Total 2021 £m	2021 £m
Financial liabilities				
<i>Financial liabilities at fair value through profit or loss</i>				
Derivatives held for trading	1,055	934	226	204
Designated upon initial recognition:				
Investment contracts	22,255	-	25,402	-
Borrowings	46	46	50	50
Deposits received from reinsurers	211	190	287	265
Other financial liabilities	3,498	3,106	3,552	3,386
<i>Financial liabilities measured at amortised cost</i>				
Other financial liabilities	139	-	730	-
	27,204	4,276	30,247	3,905

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

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ERM loans	2022 £m	2021 £m
Legal title held by:		
Loan originators	3,163	3,118
Fellow subsidiaries	557	762
	<u>3,720</u>	<u>3,880</u>
 Beneficial interest transferred to strategic subsidiaries in the year	 1,212	 1,116

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

On 25th May 2022, the Company transferred the beneficial interest of £339m of equity release mortgages ("ERM") loans to Phoenix ER5 Limited ("PER5L"), a wholly owned subsidiary, in return for notes issued by PER5L.

On 21st October 2022, the Company transferred the beneficial interest of a further £573m of ERM loans to PER5L in return for notes issued by PER5L.

On 7th December 2022 the Company transferred the beneficial interest of £300m of ERM loans to Phoenix ER6 Limited ("PER6L") in return for notes issued by PER6L.

The ERM loans transferred do not qualify for derecognition as the Company retains substantially all the risks and rewards of the ERM loans.

The Fixed Rate Loan Notes accrue interest based on a fixed schedule of cashflows, and are repayable on specified dates. The Junior Loan Notes pay interest to the extent that surplus funds are available on the specified dates and have a long stop repayment date of the 50th anniversary of the issue of the notes. The Loan Notes issued in 2020 onwards have an improved credit rating and are more resilient to financial shocks compared to those issued previously.

Offsetting financial assets and financial liabilities

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

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

At 31 December 2022

	Gross amounts of recognised financial instruments £m	Related amounts not offset			Net amount £m
		Financial instruments received / pledged as collateral £m	Cash received / pledged as collateral £m	Derivative assets / liabilities subject to netting arrangements £m	
Financial assets					
OTC Derivatives	475	461	113	207	(306)
Exchange traded derivatives	26	-	26	-	-
Stock lending	912	997	-	-	(85)
Total assets	<u>1,413</u>	<u>1,458</u>	<u>139</u>	<u>207</u>	<u>(391)</u>
Financial liabilities					
OTC derivatives	904	368	323	207	6
Exchange traded derivatives	151	-	6	-	145
Total liabilities	<u>1,055</u>	<u>368</u>	<u>329</u>	<u>207</u>	<u>151</u>

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At 31 December 2021

	Related amounts not offset					Net amount £m
	Gross amounts of recognised financial instruments	Financial instruments received / pledged as collateral	Cash received / pledged as collateral	Derivative assets / liabilities subject to netting arrangements		
	£m	£m	£m	£m		
Financial assets						
OTC Derivatives	1,191	891	728	96		(524)
Exchange traded derivatives	10	-	3	-		7
Stock lending	847	929	-	-		(82)
Total assets	2,048	1,820	731	96		(599)
Financial liabilities						
OTC Derivatives	200	623	10	96		(529)
Exchange traded derivatives	26	-	19	-		7
Total liabilities	226	623	29	96		(522)

Collateral

See accounting policies note 2(l) for a description of the circumstances in which assets are recognised or derecognised from the Statement of Financial Position.

At 31 December 2022

	OTC derivatives £m	Reinsurance £m	Stock lending £m
<i>Collateral accepted</i>			
Not recognised	461	2,613	997
Recognised assets	113	211	-
Recognised liabilities	(113)	(211)	-
Maximum exposure to credit risk	475	2,771	912
Risk mitigated by use of collateral	(341)	(2,584)	(912)
Remaining risk	134	187	-
<i>Collateral pledged</i>			
Pledged as collateral	691	-	-
In respect of liabilities of	904	-	-

At 31 December 2021

	OTC derivatives £m	Reinsurance £m	Stock lending £m
<i>Collateral accepted</i>			
Not recognised	891	3,020	929
Recognised assets	728	287	-
Recognised liabilities	(728)	(287)	-
Maximum exposure to credit risk	1,191	3,423	847
Risk mitigated by use of collateral	(1,012)	(2,999)	(847)
Remaining risk	179	424	-
<i>Collateral pledged</i>			
Pledged as collateral	633	-	-
In respect of liabilities of	200	-	-

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Credit risk on exchange traded derivative assets of £26m (2021: £10m) is mitigated through regular margining and the protection offered by the exchange.

Buy-In Arrangements

On 19 December 2016, the Company entered into a "Buy-In" agreement with the PGL Pension Scheme ("PGLPS"), which converted an existing longevity swap agreement with PGLPS into a bulk annuity contract. The Company assumed certain additional risks in respect of the benefits payable to the beneficiaries covered by the longevity swap arrangement, including the investment risk associated with the assets covering those benefits. On 1 March 2019 the Company entered into another such "Buy-In" with PGLPS.

The transactions were conducted on a premium with-held basis. PGLPS transferred an agreed portfolio of assets into a Collateral Account over which the Company has a fixed charge. The transfer of the assets to the Collateral Account constituted the payment of the premium to the Company and a simultaneous deposit back by the Company. PGLPS retains legal title to the assets whilst the Company retains the risk and rewards of the collateral provided, hence the assets are recognised in the Company.

Assets not derecognised

	2022	2021
	£m	£m
<i>Stock lending</i>		
Listed financial assets	1,168	1,174
<i>PGLPS Buy-in</i>		
Debt securities	1,375	2,187
Collective investment schemes	29	26

21. Fair value

Carrying values different to fair values

The carrying value of financial assets and liabilities measured at amortised cost approximates their fair value, except as disclosed below.

	Carrying value 2022 £m	Fair Value 2022 £m	Carrying value 2021 £m	Fair Value 2021 £m
<i>Assets and liabilities for which fair value is not disclosed</i>				
Investment contracts with DPF (note 28)	3,983	n/a	4,969	n/a
Obligations for repayment of collateral received (note 30)	139	n/a	730	n/a

It is not possible to reliably calculate the fair value of participating investment contract liabilities, included within liabilities under insurance contracts in the Statement of financial position. The assumptions and methods used in the calculation of these liabilities are set out in the accounting policies and note 28.

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

Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments

The fair value of financial instruments traded in active markets (such as exchange traded securities and derivatives) is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument. Greater depth and narrower bid-ask spread indicates higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

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Level 2 financial instruments

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

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

Level 3 financial instruments

The Company's financial instruments determined by valuation techniques using non market observable inputs are based on a combination of independent third party evidence and internally developed models. In relation to investments in hedge funds and private equity investments, third party evidence in the form of net asset valuation statements are used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required. Securities that are valued using broker quotes which could not be corroborated across a sufficient range of quotes are considered as Level 3. For a number of investment vehicles and debt securities, standard valuation models are used, with inputs that may not be fully market observable. Where possible and appropriate, inputs into such models are based on market observable data. The fair value of loans and some borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Transfers

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the middle and end of each reporting period. Transfers identified are deemed to have taken place at the start of the reporting period.

Fair value hierarchy of financial instruments

Fair value hierarchy information for non-financial assets measured at fair value is included in note 14 for investment properties and in note 16 for associates.

At 31 December 2022

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial assets measured at fair value</i>				
Derivatives	26	323	152	501
<i>Financial assets designated at fair value through profit or loss upon initial recognition</i>				
Equities	248	-	27	275
Debt securities	10,407	1,977	9,958	22,342
Subsidiaries held for investment purposes	19,590	-	737	20,327
Collective investment schemes	6,641	236	54	6,931
Reinsurers' share of investment contract liabilities	6,545	-	-	6,545
Total financial assets measured at fair value	43,457	2,536	10,928	56,921
<i>Financial assets for which fair values are disclosed</i>				
Loans and deposits at amortised cost	-	3	-	3
Total financial assets	43,457	2,539	10,928	56,924

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	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial liabilities measured at fair value</i>				
Derivatives	6	869	180	1,055
<i>Financial liabilities designated at fair value through profit or loss upon initial recognition</i>				
Investment contract liabilities	-	22,255	-	22,255
Borrowings	-	-	46	46
Deposits received from reinsurers	-	211	-	211
Other financial liabilities	-	-	3,498	3,498
Total financial liabilities measured at fair value	6	23,335	3,724	27,065
Total financial liabilities	6	23,335	3,724	27,065
At 31 December 2021				
	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial assets measured at fair value</i>				
Derivatives	3	961	237	1,201
<i>Financial assets designated at fair value through profit or loss upon initial recognition</i>				
Equities	194	-	2	196
Debt securities	13,970	2,170	9,930	26,070
Subsidiaries held for investment purposes	23,903	-	767	24,670
Collective investment schemes	8,152	192	6	8,350
Reinsurers' share of investment contract liabilities	7,051	-	-	7,051
Total financial assets measured at fair value	53,273	3,323	10,942	67,538
<i>Financial assets for which fair values are disclosed</i>				
Loans and deposits at amortised cost	-	4	-	4
Total financial assets	53,273	3,327	10,942	67,542
	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial liabilities measured at fair value</i>				
Derivatives	19	151	56	226
<i>Financial liabilities designated at fair value through profit or loss upon initial recognition</i>				
Investment contract liabilities	-	25,402	-	25,402
Borrowings	-	-	50	50
Deposits received from reinsurers	-	287	-	287
Other financial liabilities	-	-	3,552	3,552
Total financial liabilities measured at fair value	19	25,840	3,658	29,517
Total financial liabilities	19	25,840	3,658	29,517

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During 2022	From level 1 to level 2	From level 2 to level 1
	£m	£m
<i>Designated at fair value through profit or loss upon initial recognition</i>		
Debt securities	88	-
Collective investment schemes	103	-

During 2021	From level 1 to level 2	From level 2 to level 1
	£m	£m
<i>Designated at fair value through profit or loss upon initial recognition</i>		
Debt securities	146	164

There were no transfers of financial liabilities at fair value between Level 1 and Level 2 and between Level 2 and Level 1 in 2022 (2021: £nil).

The application of the Company's fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads, have resulted in a movement of debt securities and collective investment schemes in the current period from Level 1 to Level 2 and a net movement in debt securities from Level 2 to Level 1 in the prior period.

Financial instrument valuation methodology

Derivative financial assets and liabilities

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

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

A description of longevity swap arrangements, which do not meet the definition of insurance contracts under the Company's accounting policies is given in note 18. Derivatives also include forward private placements, infrastructure and local authority loans which include commitment to provide funding for fixed rate debt at specified future dates. These are all valued using unobservable inputs and are therefore categorised as level 3 in the fair value hierarchy.

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

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

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

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

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

Debt securities

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

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ERM loans and other debt securities

The ERM loans are valued using a discounted cash flow model and a Black Scholes model for valuation of the No Negative Equity Guarantee ("NNEG"). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

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

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

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

In order to benefit from the matching adjustment on the regulatory basis, the ERM loans are securitised into tranches of fixed rate senior notes and variable junior loan notes via special purpose vehicles wholly owned by the Company. Other debt securities include £3,615m (2021: £3,624m) of these loan notes. Where ERM loans are securitised, there is an offsetting impact in insurance liabilities for changes in discount rate via the matching adjustment. This results in any net financial impact of change in spread being substantially offset by a corresponding movement in insurance liabilities.

In the long term, all ERM loans will be used to back illiquid liabilities in the Company's matched portfolio. At 31 December 2022, approximately £223m (2021: £329m) were pending securitisation.

Government, including provincial and municipal, and supranational institution bonds

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

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

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

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

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

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

Infrastructure loans

These instruments are valued using models. The models use a discounted cash flow technique where future cash flows (including principal, interest and arrangement fees) are discounted to determine their present value. These inputs are generally observable with the exception of the spread used in the determination of the discount factor. These instruments are classified as level 3 in the fair value hierarchy

Commercial mortgages

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

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Assets at amortised cost*Loans secured on policies*

Loans and deposits at amortised cost are predominantly loans secured on policies. The fair value of the loans are equal to the original loan amount plus interest capitalised at a notional annual rate. As all outstanding balances are recouped in full when policy settlement takes place, or when the loan value exceeds the policy value, whichever is sooner, no impairment or discount in value is required. Due to the level of observable inputs, these assets are classified as level 2.

Investment contract liabilities

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

Borrowings at FVTPL*Property reversion loans*

A description of the property reversion loans can be found in note 29. These instruments are valued using models and due to the level of unobservable inputs are classified as level 3.

Other financial liabilities*Insurance liabilities for securitised loans*

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

Insurance contract liabilities

As permitted by IFRS 7, the Company has not disclosed fair values for investment contracts with a DPF (disclosed within insurance contract liabilities) as fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business. The assumptions and methods used in the calculation of these liabilities, and the carrying values at the year end, are set out in the accounting policies and note 28.

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

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

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

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Fair value of level 3 financial instruments by category

	Fair value	Assets	Liabilities	Fair value	Assets	Liabilities
	2022	2022	2022	2021	2021	2021
	£m	£m	£m	£m	£m	£m
<i>Derivatives</i>						
Forward private placements, infrastructure and local authority loans	(146)	-	(146)	-	7	(7)
Longevity swap contracts	118	152	(34)	181	230	(49)
	(28)	152	(180)	181	237	(56)
<i>Debt securities</i>						
ERM loans	3,719	3,719	-	3,880	3,880	-
Other illiquid assets	2,624	2,624	-	2,426	2,426	-
Other debt securities	3,615	3,615	-	3,624	3,624	-
	9,958	9,958	-	9,930	9,930	-
<i>Equity total</i>						
	27	27	-	2	2	-
<i>Subsidiaries held for investment total</i>						
	737	737	-	767	767	-
<i>Collective investment schemes total</i>						
	54	54	-	6	6	-
<i>Borrowings</i>						
Property reversion refinancing loans	(46)	-	(46)	(50)	-	(50)
	(46)	-	(46)	(50)	-	(50)
<i>Other financial liabilities: Insurance liabilities for securitised loans</i>						
	(3,498)	-	(3,498)	(3,552)	-	(3,552)
Total Level 3 financial instruments	7,204	10,928	(3,724)	7,284	10,942	(3,658)

Other illiquid assets within debt securities comprise corporate and government bonds, infrastructure loans and commercial mortgages.

Significant inputs and input values for Level 3 instruments

Description	Valuation technique	Significant inputs	Key unobservable input value	
			2022	2021
<i>Derivative assets and liabilities</i>				
Forward private placements, infrastructure and local authority loans	DCF model ¹	Credit spread	145 bps (weighted average)	126 bps (weighted average)
Longevity swaps	DCF model ¹	Swap curve	Swap curve + 10bps	Swap curve + 10bps
<i>Debt securities</i>				
ERM loans	DCF model ¹ and Black-Scholes model	Spread	Average 2.6% over SONIA swap curve + 36bps	Average 1.7% over LIBOR swap curve + 36bps
		Mortality	Based on published tables Adjusted PCA00	Based on published tables Adjusted PCA00
		Voluntary redemption rate	1.5% to 7%	1.5% to 7%
Other illiquid assets	DCF model ¹	Credit spread	172 bps (weighted average)	128bps (weighted average)
Other debt securities	Underlying valuation based on ERM loans – see above			
<i>Equity</i>	Single broker ² and net asset value ³	Single broker indicative price	N/A	N/A

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Description	Valuation technique	Significant inputs	Key unobservable input value	
			2022	2021
<i>Subsidiaries held for investment purposes</i>	Net asset value statements ³	N/A	N/A	N/A
<i>Collective investment schemes</i>	Net asset value statements ³	N/A	N/A	N/A
<i>Borrowings</i>				
Property reversion loans	Internally developed model	Mortality rate	PFL92 (Female) PML92 (Male)	PFL92 (Female) PML92 (Male)
		House price inflation	3 year RPI rate plus 0.75%	3 year RPI rate plus 0.75%
		Discount rate	3-year swap yield	3-year swap yield
		Deferred possession rate	3.7%	3.7%
<i>Other liabilities</i>				
Insurance liabilities for securitised loans	Underlying valuation based on ERM loans – see above			
<i>Multiple categories</i>				

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

Sensitivities of level 3 financial instruments

	2022	2021
	£m	£m
<i>Forward private placements, infrastructure and local authority loans</i>		
65 bp increase in spread	(21)	(25)
65 bp decrease in spread	22	26
<i>Commercial real estate loans</i>		
35 bp increase in spread	(3)	(2)
35 bp decrease in spread	3	2
<i>Other illiquid assets</i>		
65 bp increase in spread	(94)	(216)
65 bp decrease in spread	111	246
<i>ERM loans</i>		
100bp increase in spread	(315)	(416)
100bp decrease in spread	355	482
5% increase in mortality	13	(8)
5% decrease in mortality	(14)	8
15% increase in voluntary redemption rate	48	(19)
15% decrease in voluntary redemption rate	(52)	20
1% increase in house price inflation	26	24
1% decrease in house price inflation	(40)	(40)
<i>Longevity swap contracts</i>		
100bp increase in spread	(24)	(28)
100bp decrease in spread	27	35

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

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

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

	Derivatives	Equities	Debt securities	CIS	Investment subsidiaries	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2022	237	2	9,930	6	767	10,942
Total gains / (losses) in Statement of comprehensive income	(85)	(1)	(3,431)	(2)	87	(3,432)
Purchases	-	26	4,031	51	43	4,151
Sales/ Redemptions	-	-	(572)	(1)	(160)	(733)
At 31 December 2022	152	27	9,958	54	737	10,928
Unrealised gains / (losses) in the period on assets held at end of year	(85)	-	(1,166)	1	65	(1,185)

Financial assets 2021

	Derivatives	Equities	Debt securities	CIS	Investment subsidiaries	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2021	193	2	8,255	5	661	9,116
Total gains / (losses) in Statement of comprehensive income	(69)	-	(147)	1	138	(77)
Purchases	113	-	4,764	-	48	4,925
Sales/ Redemptions	-	-	(2,940)	-	(80)	(3,020)
Transfers out of level 3	-	-	(2)	-	-	(2)
At 31 December 2021	237	2	9,930	6	767	10,942
Unrealised gains / (losses) in the period on assets held at end of year	(77)	-	(180)	1	135	(121)

In the prior year, the availability of a quoted price resulted in the transfer of debt securities with a value of £2m from Level 3 to Level 2. No transfers occurred during the current year.

Financial liabilities 2022

	Derivatives	Borrowings	Other financial liabilities	Total
	£m	£m	£m	£m
At 1 January 2022	56	50	3,552	3,658
Total gains / (losses) in Statement of comprehensive income	125	8	(1,026)	(893)
Additions	-	-	1,240	1,240
Settlements	(1)	(12)	(268)	(281)
At 31 December 2022	180	46	3,498	3,724
Unrealised gains / (losses) in the period on liabilities held at end of year	125	7	(1,026)	(894)

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Financial liabilities 2021

	Derivatives	Borrowings	Other financial liabilities	Total
	£m	£m	£m	£m
At 1 January 2021	86	58	3,042	3,186
Total gains / (losses) in Statement of comprehensive income	(29)	4	(19)	(44)
Additions	-	-	1,165	1,165
Settlements	(1)	(12)	(636)	(649)
At 31 December 2021	56	50	3,552	3,658
Unrealised gains / (losses) in the period on liabilities held at end of year	(29)	4	(19)	(44)

22. Structured Entities

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

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

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

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

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

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

	2022	2021
	£m	£m
Investment subsidiaries	20,327	24,670
Collective investment schemes	6,931	8,350
Debt securities	5,471	5,734
	<u>32,729</u>	<u>38,754</u>

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

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A complete list of the Company's subsidiaries, including unit trusts and OEICs is included in note 40.

Details of commitments to subscribe to private equity funds are included in note 37.

23. Tax assets and liabilities

	2022	2021
	£m	£m
Current Tax		
Current tax recoverable	52	43
	<u>52</u>	<u>43</u>
Deferred Tax		
Deferred tax assets	42	-
Deferred tax liabilities	(39)	(117)
Net deferred tax assets/ (liabilities)	<u>3</u>	<u>(117)</u>

Movement in deferred tax assets and liabilities

Year ended 31 December 2022

	At 1 January £m	Recognised in the Statement of comprehensive income £m	At 31 December £m
Trading losses	2	7	9
Expenses and deferred acquisition costs carried forward	20	53	73
Provisions and other temporary differences	(6)	-	(6)
Accelerated capital allowances	1	-	1
Pension scheme surplus	(1)	(1)	(2)
Unrealised gains on investments	(105)	55	(50)
Acquired in-force business	(24)	2	(22)
IFRS transitional adjustments	(4)	4	-
	<u>(117)</u>	<u>120</u>	<u>3</u>

Year ended 31 December 2021

	At 1 January £m	Recognised in the Statement of comprehensive income £m	At 31 December £m
Trading losses		2	2
Expenses and deferred acquisition costs carried forward	3	17	20
Provisions and other temporary differences	(5)	(1)	(6)
Accelerated capital allowances	1	-	1
Pension scheme surplus	-	(1)	(1)
Unrealised gains on investments	(79)	(26)	(105)
Acquired in-force business	(21)	(3)	(24)
IFRS transitional adjustments	(9)	5	(4)
	<u>(110)</u>	<u>(7)</u>	<u>(117)</u>

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

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

The Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The deferred tax on the non-profit surplus was reversed and was replaced with IFRS transitional adjustments.

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The deferred tax on the transitional adjustments was amortised over a 10 year period on a straight line basis commencing 2013 and now ending in 2022 as the IFRS tax transitional adjustment was brought into account in the current tax computations.

Deferred tax recognition

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

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

The Company also has £241m of BLAGAB trading losses carried forward as at 31 December 2022. £158m of gross losses are projected to be utilised, however no value has been attributed to these deferred tax assets given the interaction with other deductible temporary differences. Deferred tax assets have not been recognised in respect of the remaining £83m of losses due to the uncertainty of future trading profits against which the losses could be offset. £5m of the BLAGAB trade losses can only be offset against future BLAGAB trade profits relating to the former non-profit business of Phoenix AW Limited, a fellow group company, and have no expiry date.

Deferred tax has not been recognised in respect of excess BLAGAB management expenses of £405m (2021: £nil). These losses can only be used against future BLAGAB income and the UK's 'corporation loss restriction' rule of 50% does not apply to the use of these losses.

EU dividend Group Litigation order

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

The Supreme Court concluded in favour of the tax payer in July 2018 and a tax benefit of £7m was recognised at 31 December 2018 in relation to enhanced double tax relief claims which the Company is entitled to in accordance with the Court judgement. The tax refund is for the benefit of the Phoenix and SAL with-profits funds (total c£5m) and unit linked life funds (£2m). 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 their 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 they will be able to deal with the various claims outstanding. Abbey Life Assurance Company Limited is one of the entities that is not a member of the GLO but has made statutory protective tax claims totalling c£8m for the benefit of unit linked life funds based on the Supreme Court decision, and these were transferred to the Company in 2018. 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.

24. Prepayments and accrued income

	2022 £m	2021 £m
Prepayments	103	85
Accrued income	36	13
	<u>139</u>	<u>98</u>
Amount recoverable after 12 months	<u>46</u>	<u>49</u>

Included within prepayments is £49m (2021: £53m) of consideration relating to the transfer of various risks to PGMS and PGS. This consideration is amortised over the expected life of the contracts.

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25. Other receivables

	2022 £m	2021 £m
Initial margins	492	136
Collateral pledged	422	95
Group relief taxation	70	10
Amounts due from related parties	43	27
Investment broker balances	43	14
Other receivables	50	78
	1,120	360
Amount recoverable after 12 months	-	-

26. Share capital

	2022 £m	2022 Number	2021 £m	2021 Number
Issued and fully paid:				
Ordinary shares of £1 each	69	69,087,572	69	69,087,572

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

The holders of the 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.

27. Other reserves

	Capital contribution reserve £m	Foreign currency translation reserve £m	Other reserves total £m
At 1 January 2022	1,184	(7)	1,177
Capital contribution received	508	-	508
Capital contribution repayment	(375)	-	(375)
At 31 December 2022	1,317	(7)	1,310
At 1 January 2021	809	(7)	802
Capital contribution received	375	-	375
At 31 December 2021	1,184	(7)	1,177

Capital contribution reserve

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

Foreign currency translation reserve

The foreign currency translation reserve arose as a result of the exchange gains and losses on profits retained in an overseas branch which have subsequently been distributed.

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28. Liabilities under insurance contracts

	Gross liabilities	Re-insurers' share	Gross liabilities	Re-insurers' share
	2022	2022	2021	2021
	£m	£m	£m	£m
<i>Life assurance business</i>				
Insurance contracts	27,681	2,675	34,175	3,307
Investment contracts with DPF	3,983	96	4,969	116
	<u>31,664</u>	<u>2,771</u>	<u>39,144</u>	<u>3,423</u>
Amounts due for settlement after 12 months	28,073	2,236	35,426	2,819

Movement in liabilities

	Gross liabilities	Re-insurers' share	Gross liabilities	Re-insurers' share
	2022	2022	2021	2021
	£m	£m	£m	£m
At 1 January	39,144	3,423	35,863	2,368
Premiums	5,555	1,527	6,463	1,940
Claims	(2,934)	(971)	(2,808)	(766)
Other changes in liabilities	(10,138)	(1,208)	(317)	(119)
Foreign exchange adjustments	37	-	(57)	-
At 31 December	<u>31,664</u>	<u>2,771</u>	<u>39,144</u>	<u>3,423</u>

Included in other changes in liabilities are changes in assumptions and economic and non-economic experience. The reduction in gross liabilities in the year relates to market movements, primarily the increase in yields and fall in equity values, as well as business run-off.

Assumptions*Valuation of participating insurance and investment contracts*

For participating business, which is with-profits business (insurance and investment contracts), the insurance contract liability is stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of future bonuses and the associated tax liability. This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

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

Valuation of non-participating insurance contracts

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

Process used to determine assumptions

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

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

Changes to assumptions

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

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	Increase/ (decrease) in insurance liabilities 2022 £m	Increase/ (decrease) in insurance liabilities 2021 £m
Change in longevity assumptions	(1)	(26)
Change in expenses assumptions	(6)	90
Change in mortality assumptions	5	(4)
Change in persistency assumptions	(5)	-
Change in other assumptions	(41)	(2)

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

Longevity and mortality assumptions

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

Expense assumptions

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

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

Persistency assumptions

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

Sensitivities

Financial and insurance risk sensitivities are set out in note 36.

Policyholder options and guarantees

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

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

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

Some pension contracts include guaranteed annuity options (see deferred annuities below for details). The total amount provided in the with-profits funds and non-profit funds in respect of the future costs of guaranteed annuity options are £243m (2021: £568m) and £47m (2021: £97m) respectively.

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Discretionary participating bonus rate

The regular bonus rates assumed in each scenario are determined in accordance with the 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.

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

In common with other life companies in the UK which have written pension transfer and opt-out business, the Company has set up provisions for redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases, are included in liabilities arising under insurance contracts. The total amount provided in the with-profits and non-profit funds in respect of redress relating to pension policies, including associated costs, are £16m (2021: £22m) and £2m (2021: £6m) respectively.

Managing product risk

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

2022

	Gross		Reinsurance	
	Insurance contracts	Investment contracts with DPF	Insurance contracts	Investment contracts with DPF
	£m	£m	£m	£m
With-profits funds				
<i>Pensions</i>				
Deferred annuities – with guarantees	2,678	-	413	-
Deferred annuities – without guarantees	657	-	-	-
Immediate annuities	713	-	605	-
Unitised with-profits	1,970	2,780	-	42
Total pensions	6,018	2,780	1,018	42
<i>Life</i>				
Immediate annuities	2	-	1	-
Unitised with-profits	410	284	-	54
Life with-profits	741	-	5	-
Total life	1,153	284	6	54
Other	465	-	56	-
Non-profit funds				
Deferred annuities – without guarantees	2,831	-	156	-
Immediate annuities	15,629	-	1,442	-
Protection	287	-	50	-
Unit-linked	1,469	919	27	-
Other	(171)	-	(80)	-
	27,681	3,983	2,675	96

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2021	Gross		Reinsurance	
	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profits funds				
<i>Pensions</i>				
Deferred annuities – with guarantees	4,115	-	728	-
Deferred annuities – without guarantees	1,007	-	-	-
Immediate annuities	964	-	807	-
Unitised with-profits	2,476	3,530	-	51
Total pensions	8,562	3,530	1,535	51
<i>Life</i>				
Immediate annuities	3	-	1	-
Unitised with-profits	493	363	-	65
Life with-profits	977	-	3	-
Total life	1,473	363	4	65
Other	516	-	73	-
Non-profit funds				
Deferred annuities – without guarantees	2,671	-	331	-
Immediate annuities	18,644	-	1,384	-
Protection	769	-	27	-
Unit-linked	1,748	1,076	22	-
Other	(208)	-	(69)	-
	34,175	4,969	3,307	116

With-profits fund (Unitised and Traditional)

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

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

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

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

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

Deferred annuities

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

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

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

Immediate annuities

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

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business. In addition, the Company has in place longevity swaps that provide downside protection over longevity risk. £12,544m (2021: £12,345m) of net insurance contract liabilities are covered by longevity swap arrangements.

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

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

Protection

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

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.

29. Borrowings

	2022	2021
	£m	£m
<i>Financial liabilities at fair value through profit or loss</i>		
Property reversion loan	46	50
	<u>46</u>	<u>50</u>
Amount due for settlement after 12 months	46	50
	<u>46</u>	<u>50</u>

As part of a loan agreement with Santander UK plc ("Santander") relating to the sale of Extra-Income Plan policies, Santander receive an amount from the Company calculated by reference to the movement of the Halifax House Price Index and the Company has undertaken to indemnify Santander against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years. The embedded derivative feature of the contract is unable to be separately measured from the host contract. As such the borrowing is designated as a liability at fair value through profit or loss. During the year, repayments totaling £12m (2021: £12m) were made. It is expected that further repayments will occur within 12 months, broadly in line with the reduction in associated property reversions (Note 14), although the value cannot be reliably estimated.

Movement in liabilities arising from financing activities

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

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	At 1 January 2022 £m	Financing cash flows £m	Changes in fair value £m	At 31 Dec 2022 £m
Property reversion loan	50	(12)	8	46
	<u>50</u>	<u>(12)</u>	<u>8</u>	<u>46</u>

	At 1 January 2021 £m	Financing cash flows £m	Changes in fair value £m	At 31 Dec 2021 £m
£200m 7.25% unsecured subordinated loans	200	(200)	-	-
Property reversion loan	58	(12)	4	50
	<u>258</u>	<u>(212)</u>	<u>4</u>	<u>50</u>

On 25 March 2021, the Company redeemed its £200m 7.25% unsecured subordinated loan notes in full. The notes were redeemed at their principal amount, together with interest accrued to 25 March 2021.

30. Other financial liabilities

	2022 £m	2021 £m
Obligations for repayment of collateral received	139	730
Amount due to related parties	3,498	3,552
	<u>3,637</u>	<u>4,282</u>
Amount due for settlement after 12 months	<u>3,321</u>	<u>3,404</u>

Amounts due to related parties are due to strategic subsidiaries and relate to mortgage loans where beneficial interest has been transferred. Further detail is provided in note 20 along with the Company's collateral arrangements.

31. Provisions

	Strategic review of outsourcing relationships £m	Complaints and litigation costs £m	Other £m	Total £m
At 1 January 2022	18	1	4	23
Additions in the year	16	1	1	18
Utilised during the year	(11)	(1)	(1)	(13)
At 31 December 2022	<u>23</u>	<u>1</u>	<u>4</u>	<u>28</u>
Amount due for settlement after 12 months	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>

Provision for strategic review of outsourcing relationships

On 29 November 2018, Phoenix Group announced the intention to move to a single, digitally enhanced outsourcer platform which will improve customer outcomes, supported by Diligenta Limited. A provision was recognised in 2018 for the Company's share of the expected cost of the platform migration, payable to PGMS as policies are successfully transferred. During the period a further 130,000 (2021: 230,000) policies across a further 6 (2021: 2) policy systems were successfully transferred to Diligenta, and therefore £11m (2021: £8m) of the provision was utilised in the period.

'Other' provisions include the Company's best estimate of a potential HMRC fine in respect of an operational policyholder tax issue and other miscellaneous provisions.

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32. Accruals and deferred income

	2022	2021
	£m	£m
Accruals	27	26
Deferred income reserve	6	7
	<u>33</u>	<u>33</u>
Amount due for settlement after 12 months	<u>5</u>	<u>6</u>

Remaining performance obligations

The practical expedient under IFRS 15 has been applied and remaining performance obligations are not disclosed as the Company 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 Company's administration of customers' life or pension products.

The movement in the deferred income reserve is explained in note 6.

33. Other payables

	2022	2021
	£m	£m
Investment broker balances	10	75
Amounts due to related parties	119	69
Other payables	29	27
	<u>158</u>	<u>171</u>
Amount due for settlement after 12 months	<u>-</u>	<u>-</u>

34. Cash flows from operating activities**Cash flows from operating activities**

	2022	2021
	£m	£m
Loss for the year before tax	(254)	(216)
<i>Non-cash movements in loss for the year before tax</i>		
Fair value losses / (gains) on:		
Investment property	27	(67)
Investment in associates	71	(25)
Subsidiaries held for investment purposes	2,034	(1,477)
Other financial assets and liabilities	9,625	720
Amortisation of:		
Acquired in-force business	11	12
Deferred acquisition costs	2	2
Change in unallocated surplus	(144)	20
Change in deposits received from reinsurers	(76)	(44)
Interest expense on borrowings	11	15
<i>Changes in operating assets and liabilities</i>		
Change in investment assets	(156)	(1,466)
Change in net derivative assets/liabilities	(532)	(177)
Change in obligations for repayment of collateral received	(591)	(499)
Change in insurance assets	1,158	(1,906)
Change in other assets	(861)	(41)
Change in other liabilities	(16)	517
Change in insurance contract and investment contract liabilities	(10,628)	4,267
Cash absorbed by operations	<u>(319)</u>	<u>(365)</u>

Supplementary disclosures on cash flow from operating activities

Interest received	590	544
Dividends received	559	493

35. Capital management

Capital Management Framework

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

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

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

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

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

Solvency II ("SII") external capital requirement

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

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

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

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

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

The estimated SII surplus position (unaudited) at 31 December 2022 is presented in the Strategic report on page 4.

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

Capital Policy

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

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

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

36. Risk management

a) Overview

Risk Management Framework

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

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Risk Universe

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

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

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

The Company has also defined a more granular categorisation for Level 2 and Level 3 risks. This helps to further explain our attitude to these risks.

b) Climate risk

The Company is exposed to market and credit risk related to the transition to a low carbon economy, and the physical impacts resulting from climate change which could result in long-term market, credit, insurance, reputation, proposition and operational implications. As such, this risk is treated as a cross-cutting risk in the Group's Risk Universe. Identification of climate related risks has been embedded into the Group's RMF, which applies to the Company. Significant progress has been made in recent years in developing a risk metrics and targets framework, and establishing appropriate governance and risk management processes. The Group has adopted a proactive approach towards combatting climate change, with key net-zero targets. Further details on these targets and on managing the related climate change risks are provided in the Climate Report and Task Force for Climate-related Financial Disclosures (TCFD) within the Group's 2022 Annual Report and Accounts.

c) Strategic risk

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

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

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

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d) Financial risks

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

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

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

e) Financial Soundness: Liquidity and funding risk

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

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

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

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

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

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

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

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

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

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

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

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

f) Contractual undiscounted maturities

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

2022

	1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	3,591	7,371	20,702	-	31,664
Investment contracts	22,255	-	-	-	22,255
Borrowings	-	-	-	46	46
Deposits received from reinsurers	21	77	204	-	302
Derivatives	121	162	1,822	-	2,105
Other financial liabilities	531	1,169	6,291	-	7,991
Reinsurance payables	13	-	-	-	13
Payables related to direct insurance contracts	624	-	-	-	624
Accruals and deferred income	28	4	1	-	33
Other payables	158	-	-	-	158

2021

	1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	3,717	8,947	26,480	-	39,144
Investment contracts	25,402	-	-	-	25,402
Borrowings	-	-	-	50	50
Deposits received from reinsurers	24	81	221	-	326
Derivatives	22	62	179	-	263
Other financial liabilities	1,013	833	4,233	-	6,079
Reinsurance payables	11	-	-	-	11
Payables related to direct insurance contracts	580	-	-	-	580
Accruals and deferred income	27	4	2	-	33
Other payables	171	-	-	-	171

(g) Financial Soundness: Capital management risk

Capital management risk is defined as the failure of the Company to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Company has exposure to capital management risk through the regulatory capital requirements mandated by the PRA. Note 35 gives more detail on how capital and capital management risk are managed.

(h) Financial Soundness: Tax risk

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

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

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

(i) Market risk

Market risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of changes in interest rates, inflation rates and currency exchange rates.

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

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

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

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

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

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

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

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

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

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

(j) Market Risk: Interest rate and inflation risk

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

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

The Company is required to manage its interest rate exposures in line with the Company's qualitative risk appetite statements, quantitative risk metrics and any additional hedging benchmarks. Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the non-profit funds. For with-profit business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. The with-

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profits funds of the Company provide capital to allow such mismatching to be effected. In practice, the Company maintains an appropriate mix of debt securities according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

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

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

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

(k) Market Risk: Currency risk

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

The Company's principal transactions are carried out in sterling and therefore its currency risk is limited principally to foreign operations. The Company's non-sterling denominated operations generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated.

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

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

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

(l) Market Risk: Equity and property price risk

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

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

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

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

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primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by any one property or group of property, geographic area, or property type.

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

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

(m) Credit risk

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

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

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

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

Credit risk management

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

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

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

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

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

The shareholders' exposure to credit risk arising from investments held in the with-profits funds is similar in purpose to that disclosed for market risk exposures in section (i).

Concentration of credit risk

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

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

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Reinsurance

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

The Company has successfully completed Bulk Purchase Annuity transactions with a combined premium of £4.8bn and the majority of the associated longevity exposures are ceded to third party reinsurers.

Collateral

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

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

Information on the values of collateral held and pledged are given in 21.

(n) Quality of credit assets

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

2022

	AAA £m	AA £m	A £m	BBB £m	Internally rated £m	Non- Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	-	-	3	-	3
Derivatives	-	189	220	-	-	86	6	501
Debt securities	1,014	6,792	3,033	1,121	5,998	4,383	1	22,342
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	6,545	6,545
Reinsurers' share of insurance contract liabilities	-	2,230	389	-	-	152	-	2,771
Cash and cash equivalents	-	4	215	26	-	-	(3)	242
	<u>1,014</u>	<u>9,215</u>	<u>3,857</u>	<u>1,147</u>	<u>5,998</u>	<u>4,624</u>	<u>6,549</u>	<u>32,404</u>

2021

	AAA £m	AA £m	A £m	BBB £m	Internally rated £m	Non- Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	-	-	4	-	4
Derivatives	-	639	452	-	7	97	6	1,201
Debt securities	1,317	10,717	2,536	1,081	6,128	4,290	1	26,070
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	7,051	7,051
Reinsurers' share of insurance contract liabilities	-	1,884	1,374	-	-	165	-	3,423
Cash and cash equivalents	-	8	362	27	-	-	12	409
	<u>1,317</u>	<u>13,248</u>	<u>4,724</u>	<u>1,108</u>	<u>6,135</u>	<u>4,556</u>	<u>7,070</u>	<u>38,158</u>

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

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

The following table provides information regarding the aggregate credit exposure of internally rated assets:

2022

	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Total £m
Debt securities	2,089	1,257	1,545	1,037	70	5,998
	<u>2,089</u>	<u>1,257</u>	<u>1,545</u>	<u>1,037</u>	<u>70</u>	<u>5,998</u>

2021

	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Total £m
Derivatives	-	5	-	2	-	7
Debt securities	1,844	1,408	2,011	793	72	6,128
	<u>1,844</u>	<u>1,413</u>	<u>2,011</u>	<u>795</u>	<u>72</u>	<u>6,135</u>

Non-equity based derivatives are included in the credit risk table above and are subject to appropriate collateral arrangements.

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

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

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

(n) Insurance risk

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

The Company is exposed to the following elements of Insurance risk

- Longevity risk - lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality
- Mortality risk - higher than expected death claims on assurance products or lower than expected improvements in mortality
- Morbidity/Disability risk - higher than expected number of inceptions on critical illness or income protection policies and lower than expected termination rates on income protection policies
- Persistency risk - adverse movement in surrender rates, GAO surrender rates, GAO take-up rates, policyholder retirement dates, propensity to commute benefits, transfer out rates or the occurrence of mass lapse event leading to losses.
- Expense risk - unexpected timing or value of expenses incurred
- New business pricing risk - inappropriate pricing of new business that is not in line with the underlying risk factors for that business.

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Objectives and policies for mitigating insurance risk

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

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

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

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

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

For the Company's Retirement Solutions business, longevity risk exposures have continued to increase as a result of the Bulk Purchase Annuity deals it has successfully acquired, although the majority of these exposures have been reinsured to third parties. Yield rises over 2022 have decreased the Company's longevity exposures.

There remains uncertainty around future demographic experience as a result of COVID-19, as outlined in the Strategic Report risk section.

The Company's liabilities under insurance contracts are detailed in note 28, which also covers the risks arising on specific contracts and how these are mitigated.

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

(o) Customer risk

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

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

The Group's Conduct Risk Appetite (which applies to the Company), sets the boundaries within which the Company expect customer outcomes to be managed. In addition, The Group Conduct Strategy, which overarches the Risk Universe and all risk policies, is designed to detect where customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions.

The Company also has a suite of customer policies which set out the key customer risks and Control Objectives in place to mitigate them. The customer risks for the Group, and of the Company, are regularly reported to management oversight committees.

(p) Operational risk

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

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

- indirect exposures through our outsourcing service providers (OSPs) and suppliers;
- direct exposures through internal practices, actions or omissions;

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- external threats from individuals or groups focused on malicious or criminal activities, or on external events occurring which are not within the Company's control; and
- negligence, mal-practice or failure of colleagues, or suppliers to follow good practice in delivering operational processes and practices.

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

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

(g) Financial and insurance risk sensitivities

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

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

Sensitivities

	2022	2021
	Effect on profit after tax and equity £m	Effect on profit after tax and equity £m
Financial sensitivities		
100bp widening of credit spreads	37	20
100bp narrowing of credit spreads	(41)	(21)
100bp increase in interest rates	69	(160)
100bp decrease in interest rates	12	200
10% increase in equity and property prices	(68)	(86)
10% decrease in equity and property prices	69	82
Insurance sensitivities		
5% increase in assurance mortality	(54)	(66)
5% decrease in assurance mortality	54	66
5% increase in annuitant longevity	(78)	(107)
5% decrease in annuitant longevity	78	107
10% increase in lapse rates	34	(11)
10% decrease in lapse rates	(33)	12

Limitations

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

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37. Commitments

	2022 £m	2021 £m
To subscribe to private equity funds and other unlisted assets	533	352
To purchase, construct or develop investment property	17	19
For repairs, maintenance or enhancements of investment property	1	2
	<u>551</u>	<u>373</u>

38. Related party transactions

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

Reinsurance accepted and ceded

The Company acts as both the reinsurer and the cedant in reinsurance transactions with PLAL, a fellow group company.

	2022 £m	2021 £m
<i>Reinsurance accepted from fellow subsidiaries:</i>		
Annual management charges payable to PLAL	15	17
	<u>1,397</u>	<u>1,650</u>
Share of investment contract liabilities		
<i>Reinsurance ceded to fellow subsidiaries:</i>		
Claims	9	11
	<u>112</u>	<u>143</u>
Share of reinsurance assets		

Transactions with Group pension schemes

On 19 December 2016, the Company entered into a "Buy-In" agreement with the PGL Pension Scheme ("PGLPS"), a fellow subsidiary of the Group. On 1 March 2019 the Company entered into another such "Buy-In" with PGLPS. The 2019 "Buy-in" with PGLPS covered the pensioner and deferred members of the Scheme remaining after the 2016 "Buy-in".

On 17 November 2020, the Company entered into a Commitment Agreement with the Pearl Pension Scheme, a related party of the Company, to complete a series of four "Buy-ins" of the Scheme's pensioner in-payment and deferred member liabilities. The first "Buy-in" completed in 2020. The second and third "Buy-ins" completed during 2021 and the Company recognised a total premium of £1,497m in 2021. During 2022 the fourth "Buy-in" completed and the Company recognised a total premium of £560m. Details of transactions with Group pension schemes are noted below.

	2022 £m	2021 £m
Premiums	560	1,497
Claims	162	116
Change in insurance contract liabilities	<u>(1,215)</u>	<u>1,369</u>
Share of insurance contract liabilities	<u>3,125</u>	<u>4,340</u>
<i>Effect of "Buy-ins" in the year</i>		
Change in insurance contract liabilities	510	1,471
Contribution to profit before tax	58	61

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Other transactions with related party companies	2022	2021
	£m	£m
<i>Income earned from related parties</i>		
Dividends received from subsidiaries	33	14
Rebate income received from subsidiaries	11	11
Interest received from subsidiaries	93	34
Dividends received from associate	23	13
<i>Expenses charged by related parties</i>		
Investment management services provided by subsidiaries	18	21
Commission charged by subsidiary	80	119
Management services provided by fellow subsidiary	306	205
Amounts due from related parties		
Debt securities due from subsidiaries	3,615	3,624
Other amounts due from subsidiaries	10	4
Amounts due from fellow subsidiaries	33	23
	<u>3,658</u>	<u>3,651</u>
Amounts due to related parties		
Amounts due to subsidiaries: ERM related	3,498	3,552
Amounts due to subsidiaries: Other	22	22
Provisions due to fellow subsidiaries	23	18
Other amounts due to fellow subsidiaries	96	47
	<u>3,639</u>	<u>3,639</u>

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

Subsidiaries

Phoenix Unit Trust Managers Limited provides investment management services to the Company, under an investment management agreement. This agreement contains rebate provisions under which rebate income is payable to the Company.

SunLife Limited ("SLL") distributes protection products manufactured by the Company in return for a commission. The Company received a dividend of £33m from SLL in the period (2021: £14m).

Note 20 gives details of the transfer of the beneficial interest in certain ERM mortgage loans to strategic wholly owned subsidiaries.

Fellow subsidiaries

PGMS, PGS, PGMSI and Standard Life Assets and Employee Services Limited provide management services to the Company, in the form of staff and other services. The provision for strategic review of outsourcing relationships (note 31) is also due to PGMS.

During the year, as part of the Company's strategic asset allocation, the Company exchanged approximately £1.2 billion of liquid and illiquid debt securities and derivatives with ReAssure Limited. The Company exchanged the assets at fair value and as such recognised no gain or loss on the transaction.

Transactions with associate

Further details of transactions with the Company's associate are given in note 16.

Transactions with the immediate parent company

No dividends were paid to Phoenix Life Holdings Limited ("PLHL") during the year (2021: £nil). Capital contributions paid to and received from PLHL are disclosed in note 27.

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Transactions with key management personnel

The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 9. Other transactions are disclosed below:

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

39. Events after the reporting period

On 1 January 2023 the Company transferred all Irish branch policies and associated assets and liabilities to Phoenix Life Assurance Designated Activity Company ("PLAEDAC") under Part VII of the Financial Services and Markets Act 2000.

In addition to the transfer the Company entered into reinsurance agreements post transfer date with PLAEDAC for the contracts invested within the Phoenix WP Fund, 90% WP Fund, Alba WP Fund, SPI WP Fund and the Non-Profit Fund.

As the transfer took place post 1 January 2023 the value of assets and liabilities transferred will be disclosed in the year ended 31 December 2023 financial statements, on an IFRS 17 basis. As set out in Note 3, financial impacts under IFRS17 have not been included in these financial statements.

40. Listing of subsidiaries

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

Company name	Country of incorporation and principal place of operation	Type of holding (all wholly owned)
Britannic Finance Limited	England and Wales	Ordinary shares of £1
Britannic Money Investment Services Limited	England and Wales	Ordinary shares of £1
Cityfourinc (unlimited)	England and Wales	Ordinary & Preference shares of £1
Phoenix ULA Limited	England and Wales	Ordinary shares of £1
Phoenix ER1 Limited	England and Wales	Ordinary shares of £1
Phoenix ER3 Limited	England and Wales	Ordinary shares of £1
Phoenix ER4 Limited	England and Wales	Ordinary shares of £1
Phoenix ER5 Limited	England and Wales	Ordinary shares of £1
Phoenix ER6 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV1 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV2 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV3 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV4 Limited	England and Wales	Ordinary shares of £1
Phoenix Unit Trust Managers Limited	England and Wales	Ordinary shares of £1

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Scottish Mutual Nominees Limited	Scotland	Ordinary shares of £1
Scottish Mutual Pension Funds Investment Limited	Scotland	Ordinary shares of £1
SunLife Limited	England and Wales	Ordinary shares of £1
The Phoenix Life SCP Institution	Scotland	Unlimited without share capital

Subsidiaries incorporated in England and Wales have the registered office address 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

Subsidiaries incorporated in Scotland have the registered office address Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.

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

Company Name	Country of incorporation and principal place of operation	Type and % of holding	Address
ASI Phoenix Global Private Equity III LP (Pool A)	Scotland	Limited Partnership, 70.6%	5
ASI Phoenix Global Private Equity III LP (Pool B)	Scotland	Limited Partnership, 70.6%	5
ASI Phoenix Global Private Equity III LP (Pool C)	Scotland	Limited Partnership, 70.6%	5
Janus Henderson Global Funds - Janus Henderson Institutional Overseas Bond Fund	England and Wales	OEIC, sub fund, 84.86%	2
Janus Henderson Institutional Mainstream UK Equity Trust	England and Wales	Unit Trust, 65.51%	2
Janus Henderson Strategic Investment Funds - Janus Henderson Institutional Japan Index Opportunities Fund	England and Wales	OEIC, sub fund, 66.93%	2
Janus Henderson Strategic Investment Funds - Janus Henderson Institutional North American Index Opportunities Fund	England and Wales	OEIC, sub fund, 67.29%	2
Janus Henderson Strategic Investment Funds - Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund	England and Wales	OEIC, sub fund, 72.24%	2
Janus Henderson Institutional High Alpha UK Equity Fund	England and Wales	Unit Trust, 63.86%	2
PUTM Bothwell Short Duration Credit Fund	England and Wales	Unit Trust, 100%	1
PUTM Bothwell Floating Rate ABS Fund	England and Wales	Unit Trust, 54.49%	1
PUTM Bothwell Global Credit Fund	England and Wales	Unit Trust, 80.86%	1
PUTM Bothwell Asia Pacific (Excluding Japan) Fund	England and Wales	Unit Trust, 76.68%	1
PUTM Bothwell Emerging Market Debt Unconstrained Fund	England and Wales	Unit Trust, 25.20%	1
PUTM Bothwell Emerging Markets Equity Fund	England and Wales	Unit Trust, 81.13%	1
PUTM Bothwell Index-Linked Sterling Hedged Fund	England and Wales	Unit Trust, 100%	1
PUTM Bothwell Long Gilt Sterling Hedged Fund	England and Wales	Unit Trust, 100%	1
PUTM Bothwell Sterling Government Bond Fund	England and Wales	Unit Trust, 96.80%	1
PUTM Bothwell Euro Sovereign Fund	England and Wales	Unit Trust, 82.12%	1
PUTM Bothwell Sub-Sovereign A Fund	England and Wales	Unit Trust, 44.33%	1
PUTM Bothwell Sterling Credit Fund	England and Wales	Unit Trust, 43.70%	1

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PUTM Bothwell Tactical Asset Allocation Fund	England and Wales	Unit Trust, 70.69%	1
PUTM Bothwell UK All Share Listed Equity Fund	England and Wales	Unit Trust, 45.69%	1
PUTM Bothwell UK Equity Income Fund	England and Wales	Unit Trust, 99.84%	1
PUTM Bothwell Ultra Short Duration Fund	England and Wales	Unit Trust, 91.65%	1
PUTM UK All-Share Index Unit Trust	England and Wales	Unit Trust, 99.83%	1
PUTM Far Eastern Unit Trust	England and Wales	Unit Trust, 99.43%	1
PUTM UK Stock Market Fund (Series 3)	England and Wales	Unit Trust, 99.97%	1
PUTM UK Stock Market Fund	England and Wales	Unit Trust, 99.99%	1
PUTM UK Equity Unit Trust	England and Wales	Unit Trust, 99.89%	1
Ignis Private Equity Fund LP	Cayman Islands	Limited Partnership, 100%	4
Ignis Strategic Credit Fund LP	Cayman Islands	Limited Partnership, 100%	4
Ignis Strategic Solutions Funds plc – Systematic Strategies Fund	Republic of Ireland	OEIC, sub fund, 63.21%	3
Janus Henderson Institutional UK Equity Tracker Trust	England and Wales	Unit Trust, 100%	2
Aberdeen Standard Liquidity Fund (Lux) - Seabury Sterling Liquidity 3 Fund	Luxembourg	UCITS, sub fund , 62.82%	6
PUTM ACS UK All Share Listed Equity Fund	England and Wales	Unit Trust, 40.69%	1
PUTM ACS European ex UK Fund	England and Wales	Unit Trust, 88.14%	1
PUTM ACS Japan Equity Fund	England and Wales	Unit Trust, 22.03%	1
PUTM ACS North American Fund	England and Wales	Unit Trust, 58.42%	1
PUTM ACS North American Fund	England and Wales	Unit Trust, 75.24%	1

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

Registered office addresses

1. 1 Wythall Green Way, Wythall, Birmingham, B47 6WG
2. 201 Bishopsgate, London, EC2M 3AE
3. 32 Molesworth Street, Dublin 2, Dublin, D02 Y512, Ireland
4. Uglan House, Grand Cayman, KY1-1104, Cayman Islands
5. 1 George Street, Edinburgh, EH2 2LL, United Kingdom
6. 35a Avenue J.F. Kennedy, L-1855, Luxembourg

41. Ultimate parent and ultimate controlling party

The Company's immediate parent is Pearl Life Holdings Limited and its ultimate parent and ultimate controlling party is Phoenix Group Holdings plc, a company incorporated in England and Wales. Copies of the Phoenix Group Holdings plc consolidated financial statements can be obtained from their company website, www.thephoenixgroup.com.