

 Phoenix

Interim Financial Report 2023

Phoenix Group Holdings plc



Performance

Key performance indicators

Operating companies' cash generation¹

£898m

(HY 2022: £950m)

REM | APM

Group Solvency II surplus (estimated)

£3.9bn

(FY 2022: £4.4bn)

REM

Group Solvency capital coverage ratio (estimated)

180%

(FY 2022: 189%)

REM | APM

Incremental new business long-term cash generation

£885m

(HY 2022: £430m)

REM | APM

Other performance indicators

Interim ordinary dividend per share

26.0p

(HY 2022: 24.8p)

Adjusted operating profit before tax

£266m

(HY 2022: £254m²)

APM

IFRS loss after tax

£(245)m

(HY 2022: £(1,258)m²)

Assets under administration

£269bn

(FY 2022: £259bn)

APM

Fitch financial leverage ratio

25%

(Restated FY 2022: 25%³)

REM | APM

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

All amounts throughout the report marked with **APM** are alternative performance measures. Read more on page 92.

1 HY23 Includes £450m remitted from the life companies in July 2023

2 HY22 restated comparative to reflect adoption of IFRS 17

3 FY22 restated Fitch leverage ratio is estimated by management on an IFRS 17 basis and reflects the adoption of a market-consistent ratio calculation methodology. Ratio allows for currency hedges over foreign currency denominated debt.

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Overview

Group Chief Executive Officer's report

Phoenix has made an excellent start to 2023 – we are executing on our strategy, and this is enabling us to deliver strong growth and resilient cash generation.

The progress we are making as a business is demonstrable, as we continue to deliver strong financial results across our financial framework of cash, resilience and growth, through executing on our strategic priorities.

A purpose-led business with a single strategic focus

Phoenix is the UK's largest long-term savings and retirement business and our purpose is 'helping people secure a life of possibilities'. This is embedded in everything that we do and informs our single strategic focus, which is to help customers journey to and through retirement. We do this by offering a broad range of pensions, savings and retirement income products, and the education and advice they need, to support customers across all stages of their savings life cycle. We are proud to manage £269 billion of customer assets in support of this.

There is a huge societal need for what we do, as only c.10% of individuals take advice on their journey to and through retirement, and only 1-in-7 Defined Contribution ('DC') pension savers are on track for a retirement income that maintains their current living standards. The UK long-term savings and retirement market is large, with c.£3 trillion of total stock, and is growing fast, with annual flows of c.£150-200 billion.

Counterintuitively, these structural growth opportunities are only being accelerated by the current challenging economic environment. In Workplace, we are seeing strong growth, fuelled by high levels of salary inflation and full employment in the UK economy. The Retail market has slowed down a bit, with less switching of flows between providers, but this is helpful for our in-force book as it helps us to improve our customer retention. While the BPA market is seeing record levels of demand, due to higher interest rates, making BPAs more affordable for corporates. Finally, we believe there will be more M&A opportunities coming to market over time, as high inflation means that it's harder to deliver the necessary cost reductions, in unhedged closed books, and so the cash generation in these books will be reducing.

We have a diversified and balanced business mix, across the long-term savings and retirement market, with around two-thirds of our business being capital-light, fee-based products. Our strategy is designed to maintain a balanced business mix, as we leverage our existing scale to grow our capital-light fee-based Pensions and Savings business, and through being disciplined in our annuity growth, as we seek to limit the credit risk we retain on our balance sheet.

Having trusted brands is critical to engaging customers and having the credibility to support them with some of the most important financial decisions they make. We are therefore proud to have a family of brands that enables us to successfully engage and support customers throughout their savings lifecycles, helping us to grow both organically and through M&A. In particular, our Standard Life brand is highly trusted and well known, and is one of the key drivers of our organic growth as we utilise it to win new business in both the Workplace and BPA markets. In total, our brands service c.12 million customers, and they come together in our passion to deliver our purpose.

A strong financial performance in the first six months of 2023

I am delighted with the momentum in our organic growth. We have more than doubled new business incremental long-term cash generation to £885 million in the first half (HY 2022: £430 million), which means we have already more than offset the run-off of our in-force business of c.£800 million per annum in the first half. Our new business net fund flows are growing strongly too, up 72% year-on-year to £3.1 billion (HY 2022: £1.8 billion). The strong progress we have made with our growth strategy means that we now expect to deliver positive Group net funds flows from 2024, for the first time in Phoenix's history.

We have continued to deliver strong cash generation with £898 million in the period (HY 2022: £950 million) and are on track to deliver at the top-end of our £1.3-to-£1.4 billion target range for 2023. Our balance sheet also remains resilient with a Solvency II ('SII') surplus of £3.9 billion (FY 2022: £4.4 billion) and Shareholder Capital Coverage Ratio of 180% (FY 2022: 189%). This resilience provides the flexibility to not only invest our surplus capital into growth opportunities, but ensures our dividend is sustainable over the very long term.

Reflecting our strong business performance, the Board has declared an Interim dividend of 26.0p per share, equal to the 2022 Final dividend, which is a 5% increase year-on-year (HY 2022: 24.8p).

Finally, as a reminder, our Half Year 2023 results are our first reported under the new IFRS 17 accounting standard, following its implementation on 1 January 2023. Under IFRS 17 total profit remains unchanged over the lifetime of a contract, however the timing of when profit emerges is different. The impact of the transition is covered in more detail in the Business Review on page 14, but it is important to note that its implementation does not change our strategy or dividend, and we will remain focused on delivering cash and capital.

During the first half, we delivered adjusted operating profit before tax of £266 million which primarily reflects an increase in contractual service margin ('CSM') release from BPA new business and from positive assumption changes in the prior year (HY 2022: £254 million). However, we are reporting an IFRS loss after tax of £245 million (HY2022: £1,258 million). This primarily reflects adverse economic variances which arise from our comprehensive approach of hedging our Solvency balance sheet, as well as recurring amortisation and finance costs.

Clear progress across our strategic priorities

We have three strategic priorities which support us in delivering on our strategy and our purpose: growing organically and through M&A, optimising our in-force business, and enhancing our operating model and culture. Delivering against these further strengthens our competitive advantages of capital efficiency, customer access and cost efficiency. These in turn enhance everything we do as we grow our business, and underpin the delivery of strong financial outcomes for our shareholders.

Overview

We have made strong progress against all three strategic priorities in the first half of 2023, as outlined below and on page 5.

Growing organically

We deliver sustainable organic growth by meeting more of our existing customers' needs and acquiring new customers as we support them to save for, transition to and secure an income in retirement.

In the first half of 2023, we more than doubled our incremental new business long-term cash generation which clearly demonstrates the successful execution of our organic growth strategy and the momentum we are building.

In our capital-light fee-based businesses, we saw incremental new business long term cash generation increase 49% to £220 million (HY 2022: £148 million). This growth was largely driven by our Workplace business which contributed £184m (HY 2022: £112m) and reflects our success in leveraging our competitive advantages in this market, of cost efficiency and customer access.

Workplace is different to most other markets, in that the majority of growth comes from your existing customers. So it is critical to retain your existing customers, which we are now doing very successfully through our enhanced Workplace proposition. This enables us to both reduce our outflows and benefit from increased new business inflows, through new joiners to existing schemes and increased member contributions through higher salary inflation. That is why 95% of our incremental new business long-term cash generation in the first half has come from our existing clients.

In addition, by winning new schemes in the market we can turbo charge our future growth. It is therefore great to see that our new scheme wins continue to accelerate, as we focus on the fast growing Master Trust segment of the market. Importantly, in addition to the smaller schemes we have been winning over the past few years, we are now winning the big schemes too, and we will see c.£3 billion of new scheme assets transfer to Phoenix in 2024 and 2025 from recent wins. Once onboard, these assets will drive future fund inflows and incremental new business long term cash generation. This is our Workplace "flywheel" in action. We are also currently quoting on a significant pipeline of new Workplace schemes, totalling around £3.5 billion of assets, and are confident of winning further schemes over time.

Having reinvigorated our Workplace business, we are now focusing our attention on the Retail market. Here we have a huge embedded growth opportunity, through better supporting the 1-in-5 UK adults who are already Phoenix Group customers, with the development of our advice proposition a key enabler. I am excited by the opportunity we have here to better support individual customers on their retirement journey and look forward to our long-term strategy delivering results over the coming years.

Finally, we also continue to deliver sustainable growth in our Retirement Solutions business, where we are winning in a competitive BPA market, thanks to our strong proposition and the trusted Standard Life brand. This enabled us to generate £665 million of incremental new business long-term cash generation in the first half (HY 2022: £282 million). The BPA market is large and growing, however our participation is consciously disciplined to ensure that we maintain our balanced business mix, and limit our exposure to credit risk.

Alongside BPA, we've also been focused on our individual annuity proposition, in response to the increased customer demand across the market. I am therefore pleased to say that in September we launched our first open market individual annuity product, the Standard Life Pension Annuity. This product is available to both new and existing customers, and is another example of us filling in the remaining gaps to complete our full-service customer proposition.

Growing through M&A

We are also growing inorganically through M&A, where we acquire new customers to deliver better customer outcomes and who we can then help through their savings life cycles.

We have a long and successful track record of delivering attractive returns from M&A. Through buying back books at an attractive valuation and delivering significant cost and capital synergies, we can deliver cash generation over the life of the business which significantly exceeds the purchase price. We can also achieve a fast payback due to the accelerated cash emergence we typically deliver.

For instance, we acquired ReAssure for £3.2 billion in 2020 and have already remitted £3.7 billion in cash generation, thereby achieving a three-year payback. We also still expect a further £3.3 billion of cash generation to emerge over time from the ReAssure acquisition. Our most recent acquisition, of Sun Life of Canada UK, completed in April. We have received £46 million of cash generation within the first three months of ownership, which is equivalent to c.20% of the purchase price.

With c.£435 billion of UK Heritage assets potentially available over time, we continue to be optimistic about the outlook for further value-accretive M&A. However, as with all M&A, it is hard to predict exactly which books of business will come to market, or when, but we believe that the challenging economic environment makes M&A, both large and small, more likely. As ever, we stand ready to do our next deal, through our ability to manage multiple migrations concurrently, and the financial flexibility we have to fund deals.

Optimising our in-force business

Through leveraging our scale in-force business we deliver capital efficiency and better returns on our capital, with further progress made in 2023.

We have increased our solvency capital position by £412 million through management actions, which extends our recent track record of delivering high levels of recurring actions, and reflects our ongoing focus of optimising and enhancing our business. These management actions were primarily from 'business-as-usual' activities, which are not reliant on synergies from M&A transactions.

We have invested into building our in-house asset management capability, which enables our growth strategy and will support the delivery of management actions into the very long term, and which contributed £151 million to solvency capital in the first half. This included the continued optimisation of our liquid credit book through trade-ups to optimise our credit portfolio yield and the ongoing investment of annuity backing assets into illiquid asset classes. We also continue to target the diversification of our portfolio geographically and successfully deployed £1.1 billion of assets into North America in the first half.

Phoenix also has an established expertise in delivering actions that improve our cost and capital efficiency actions and we continue to deliver integration synergies from our previous acquisitions such as ReAssure. We are confident that the capabilities we have now built in-house, across asset management and capital optimisation, will enable us to leverage evolving market dynamics on an ongoing basis, and to deliver a sustainable level of management actions over the very long term.

I am also delighted that we are making progress with our Sustainability ambitions, with the publication of our Net Zero Transition Plan an important milestone on our journey to being a net zero organisation. It brings together the clear targets and positive steps we've already taken – such as achieving our targets for our own operations three years ahead of plan – with our commitment to work with industry partners and government to drive system-wide change going forward. Active stewardship is a key component of our plans and our recent certification as a signatory to the UK Stewardship Code is a clear statement of our intent to invest our £269 billion of customer assets in a responsible way.

Enhancing our operating model and culture

Our priority here is delivering leading cost efficiency and a modern organisation, with further progress delivered in the first half of the year.

A key part of our integration journey is migrating customers from the legacy Standard Life platform onto the modern TCS Diligenta BaNCS platform, with digital capabilities now critical as a means of interacting with our customers. I am therefore pleased that we now have c.80% of our digital customer journeys transitioned onto BaNCS, supporting an enhanced customer experience and a more cost efficient platform.

We are also currently executing one of the largest ever insurance Part VII transfers, as we bring together the legacy Phoenix Life and Standard Life customers into a single legal entity. This requires us to unify 4 legal entities and c.7 million policyholders in a seamless manner, and I am pleased to say that we are making good progress, and hope to complete it by the end of this year.

At Phoenix we want to be the best place any of us have ever worked, which includes a great colleague experience and balance between their work and personal lives. To support this ambition we recently implemented Phoenix Flex, our new approach to flexible working, which goes well beyond the minimum requirements set out in legislation and has received good initial feedback from our colleagues. As well as offering flexibility to our colleagues, it is vital we have a diverse and inclusive workforce. We continue to make progress here and are on track to meet our 2023 targets of 40% of senior leaders being women and a 13% ethnic minority representation in our workforce.

Finally, we are committed to innovating our proposition to better support our customers, and launched an integrated financial wellness hub, Money Mindset, to enhance the Standard Life digital app and dashboard, with the intention of reaching 1.5 million Workplace pension scheme members.

Summary and Outlook

Phoenix is successfully executing on its single strategic focus – helping customers journey to and through retirement - which, in turn, is enabling us to grow our business and deliver strong ongoing financial results.

By leveraging our three unique competitive advantages of capital efficiency, customer access, and cost efficiency, we are delivering strong organic growth. We more than doubled our incremental new business long-term cash generation in the first half and are on track to deliver our target of £1.5 billion per annum by 2025. Our new business net fund flows also grew strongly in the first half, and we therefore now expect our new business inflows to more than offset our Heritage run-off outflows from 2024, to deliver positive Group net funds flows for the first time.

We are also growing through M&A, delivering strong returns, with an accelerated payback. M&A remains a strategic priority and we are optimistic of further acquisition opportunities emerging over time and are confident in our ability to both fund and execute successfully.

Delivering on our strategy underpins our dependable dividend, with our clear policy which is to 'pay a dividend that is sustainable and grows over time'. The Board will assess the level of the 2023 Final dividend alongside the Full Year results next year, with the decision informed by our business performance across the whole of 2023.

Thank you

Delivery of such a strong set of results is only achieved through the hard work and dedication of our exceptional people, so I'd like to take this opportunity to thank each and every one of my colleagues across the Group for their contributions.

We have built good momentum in the first half of 2023 and I look forward to seeing further progress in the second half and beyond.

Andy Briggs

Group Chief Executive Officer

Business review

Delivering cash, resilience and growth

Strong performance across our core financial metrics

Phoenix has delivered a strong financial performance in the first half of 2023, with our organic growth accelerating as we invest into our growth propositions, which is funded by our high levels of predictable cash generation and is underpinned by our resilient balance sheet.

We have delivered strong cash generation of £898¹ million in the period and are on track to deliver at the top-end of our 2023 target range of £1.3-to-£1.4 billion.

We have also maintained our resilient SII balance sheet, with a SII surplus of £3.9 billion and a Shareholder Capital Coverage Ratio of 180%, which are after the investment of surplus capital into growth.

Our incremental new business long-term cash generation has more than doubled year-on-year to £885 million, and with a buoyant BPA market and real momentum building in our Workplace business, I am confident we will achieve another year of strong organic growth.

The Board has declared an Interim dividend of 26.0p per share, in line with our Final 2022 dividend, which is a 5% year-on-year increase.

IFRS 17 transition

On 1 January 2023, the Group adopted the new accounting standard, IFRS 17: 'Insurance Contracts', with comparatives restated from 1 January 2022. IFRS 17 is an accounting change which requires a company to recognise profits as it delivers insurance services (rather than when it receives premiums) and to provide information about insurance contract profits the company expects to recognise in the future.

However, it does not alter the underlying economics of our business and it therefore has no impact on our strategy or dividend, and we will continue to remain focused on delivering cash and capital. More details about the impact of the IFRS 17 transition are detailed on page 14.

The Group's HY 2023 adjusted operating profit increased to £266 million (HY 2022: £254 million) which primarily reflects an increase in the CSM release from BPA new business and from positive assumptions changes in the prior year, but we are reporting an IFRS loss after tax of £245 million (HY 2022: £1,258 million). This primarily reflects £253 million of adverse investment return variances in relation to our Solvency balance sheet hedging, along with recurring amortisation (£161 million) and finance costs (£99 million).

A strong financial performance in HY 2023

Financial performance metrics:		30 June 2023	30 June 2022	YOY change
Cash	Cash generation	£898m¹	£950m	-5%
New Business	Incremental long-term cash generation	£885m	£430m	+106%
Dividend	Interim dividend per share	26.0p	24.8p	+5%
IFRS	Loss after tax	£(245)m	£(1,258)m ²	-80%
	Adjusted operating profit before tax	£266m	£254m ²	+5%

Balance sheet metrics:		30 June 2023	31 December 2022	6-mth change
Solvency II	PGH Solvency II surplus	£3.9bn	£4.4bn	-11%
Capital	PGH Shareholder Capital Coverage Ratio ('SCCR')	180%	189%	-9%pts
In-force cash	Group in-force long-term free cash	£12.5bn	£12.1bn	+3%
Assets	Assets under administration	£269bn	£259bn	+4%
Leverage	Fitch leverage ratio ³	25%	25% ³	-

1 Includes £450m remitted from the life companies in July 2023

2 Restated comparative to reflect adoption of IFRS 17

3 FY22 restated Fitch leverage ratio is estimated by management on an IFRS 17 basis and reflects the adoption of a market-consistent ratio calculation methodology. Ratio allows for currency hedges over foreign currency denominated debt

Alternative performance measures

With our financial framework designed to deliver cash, resilience and growth, we recognise the need to use a broad range of metrics to measure and report the performance of the Group, some of which are not defined or specified in accordance with Generally Accepted Accounting Principles ('GAAP') or the statutory reporting framework.

In prioritising the generation of sustainable cash flows from our operating companies, performance metrics are monitored where they support this strategic purpose, which includes ensuring that the Solvency II capital strength of the Group is maintained. We use a range of alternative performance measures ('APMs') to evaluate our business, which are summarised on page 92.

Cash

£898m^{1,2} £12.5bn

Operating companies'
cash generation

Group in-force long-term free
cash

Cash generation & group liquidity

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

Cash generation from the operating companies is principally used to fund the Group's shareholder dividends, debt interest and repayments, and its various operating costs. Any surplus remaining is available for reinvestment into organic and inorganic growth opportunities. The cash flow analysis that follows reflects the cash paid by the operating companies to the Group's holding companies, as well as the uses of those cash receipts, including support for growth opportunities.

Group cash flow analysis		
£m	30 June 2023	30 June 2022
Cash and cash equivalents at 1 January	503	963
Net cash receipts from operating companies ¹	898 ²	950
Uses of cash:		
Operating expenses	(44)	(39)
Pension scheme contributions	(9)	(9)
Debt interest	(125)	(124)
Non-operating cash inflows/(outflows)	178	(165)
Uses of cash before shareholder dividend	-	(337)
Shareholder dividend	(260)	(248)
Total uses of cash	(260)	(585)
Support of BPA activity	(195)	(102)
Cost of acquisition (Sun Life of Canada UK)	(250)	-
Closing cash and cash equivalents at 30 June	696	1,226

1 Total cash receipts include £139 million received by the holding companies in respect of tax losses surrendered (HY 2022: £40 million)

2 Shown on proforma basis to include £450 million remitted from the life companies in July

Cash receipts

Cash generated by the operating companies during the period was £898 million (HY 2022: £950 million). This includes £450m remitted from the life companies in early July, reflecting the timing of the Board meeting. The Group has set a one-year cash generation target range of £1.3-to-£1.4 billion for 2023, and is on track to deliver at the top-end of this range.

Uses of cash

Operating expenses of £44 million (HY 2022: £39 million) represent corporate office costs, net of income earned on holding company investment balances. The small increase relative to 2022 reflects increased costs associated with the development of our capabilities across our Group functions that are required to support our growth strategy.

Pension scheme contributions of £9 million were made in the period, which are in line with prior year (HY 2022: £9 million).

Debt interest of £125 million (HY 2022: £124 million) reflects interest paid in the period on Group debt instruments and is broadly stable.

Non-operating net cash inflows of £178 million (HY 2022: £165 million net cash outflow) include £266 million in respect of net collateral cash and hedge close outs. This is partially offset by £71 million of integration costs across Standard Life and ReAssure and £13 million of costs in relation to the IFRS 17 implementation project.

Shareholder dividend

The shareholder dividend of £260 million represents the payment of the 2022 Final dividend in May. This has increased year-on-year, from £248million, due to the 5% increase announced alongside our Full Year 2022 results.

Support of BPA activity

Funding of £195 million (HY 2022: £102 million) has been provided to the life companies to support the strong performance in the first half in our BPA business, with £3.2 billion of premiums written in the first half (HY 2022: £1.6 billion).

Business review

Group closing cash balance

The Group seeks to hold a minimum cash buffer of around £300-400 million, which is sufficient to cover 6 months of costs and dividends. The Group's closing cash balance of £696 million means that we have surplus cash available.

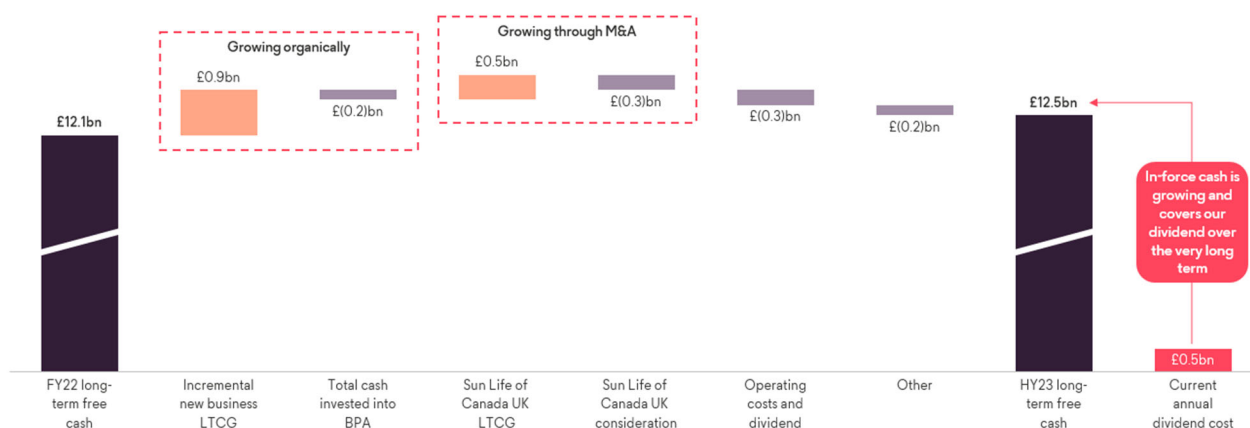
Group in-force long-term free cash

Group in-force long-term free cash is comprised of the long-term cash generation expected to emerge from our current in-force business over its lifetime plus existing Group holding company cash, less an allowance for costs associated with our M&A integration activity and a deduction for the servicing and redemption of all shareholder debt outstanding. It is a measure of the cash that will be available to our shareholders over time, from the business we have on our books today.

During the first half, this has grown by £0.4 billion to £12.5 billion at 30 June 2023 (FY 2022: £12.1 billion). This is primarily driven by a net £0.7 billion increase through organic growth and a net £0.2 billion increase through M&A growth, which more than offset our uses of cash.

£12.5 billion of Group in-force long-term free cash underpins the sustainability of our c.£0.5 billion annual dividend cost over the very long term. As it continues to grow, it will support us in delivering on our policy of paying a dividend that is sustainable and grows over time.

£0.4 billion increase in Group in-force long-term free cash



Resilience

£3.9bn

Group Solvency II surplus
(estimated)

180%

Group Shareholder Capital
Coverage Ratio (estimated)

Capital management

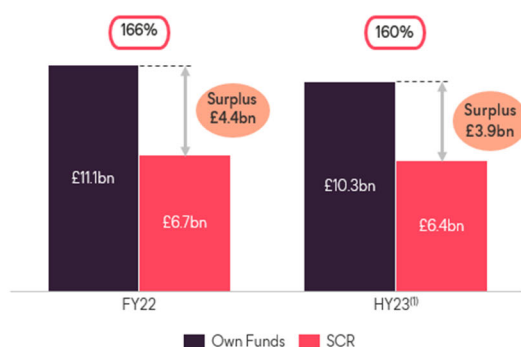
A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's Solvency Capital Requirement ('SCR'). The Group's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the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

Group Solvency II capital position

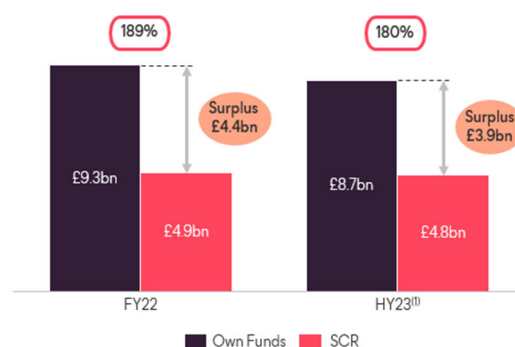
Our Solvency II capital position remains strong, with a resilient Solvency II surplus of £3.9 billion, and includes the accrual for the deduction of our 2023 Interim dividend.

Our Shareholder Capital Coverage Ratio ('SCCR') is 180%, after the investment of surplus capital into growth during the first half. The ratio is at the top-end of our 140%-to-180% target range, providing future capacity to invest into both organic and inorganic growth.

PGH Solvency II Regulatory Coverage Ratio⁽¹⁾



PGH Shareholder Capital Coverage Ratio^(1,2)



Notes

- 30 June 2023 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would decrease by £4 million and increase by 0.2%pts respectively.
- The Shareholder Capital Coverage Ratio excludes Solvency II own funds and Solvency Capital Requirements of unsupported With-Profit funds and unsupported pension schemes.

Change in Group Solvency II surplus and SCCR (estimated)

The Group Solvency II surplus was £3.9 billion (FY 2022: £4.4 billion) and our SCCR was 180% as at 30 June 2023 (FY 2022: 189%). The reduction since FY 2022 is largely due to our proactive decision to invest c.£0.4 billion of surplus capital into growing our business both organically and inorganically, which has increased our Group in-force long-term free cash, and will drive future cash and capital generation.

Our ongoing surplus emergence and release of capital requirements contributed £0.3 billion to our SII excess, increasing the SCCR by 10%pts.

Our ability to deliver management actions is a key differentiator for Phoenix. We have continued to demonstrate this capability with £0.4 billion delivered in the period, increasing the SCCR by 16%pts. The significant ongoing level of management actions reflects our focus on optimising and enhancing our business, with actions in the first half primarily from repeatable 'business-as-usual' actions. These include the dynamic optimisation of our liquid credit portfolio to achieve higher yields and our ongoing illiquid asset origination. Other actions during the period include ongoing cost and capital efficiency actions, along with integration benefits from ReAssure.

We have invested into enhancing our in-house asset management capabilities and are the experts in delivering cost and capital synergies. We therefore continue to be confident of delivering management actions into the very long term.

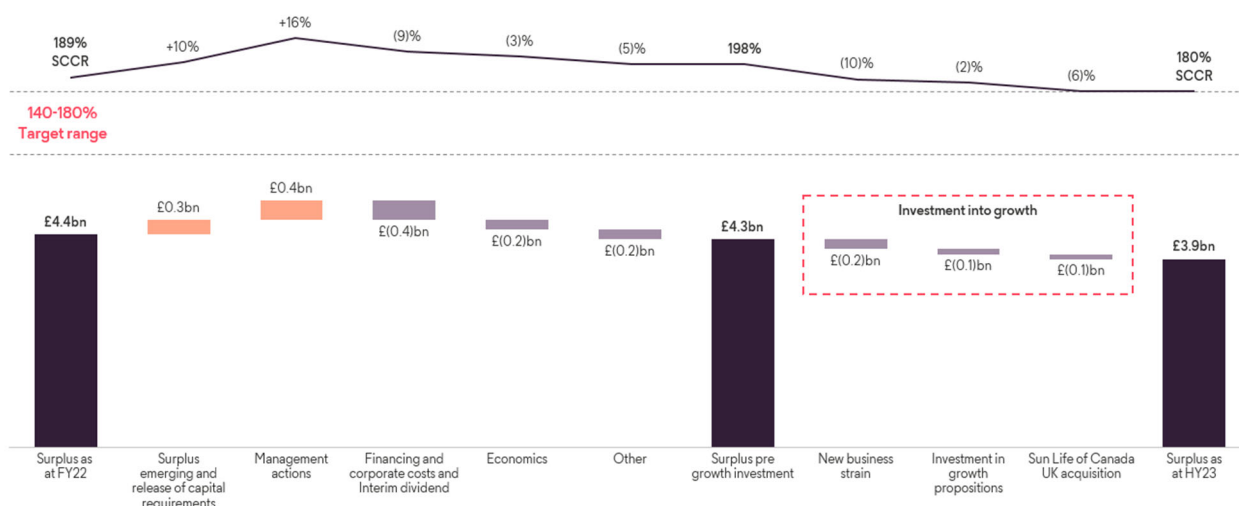
As ever, operating costs, dividends and interest totalled £0.4 billion, reducing the SCCR by 9%pts.

We experienced a small adverse economic variance of £0.2 billion, reducing the SCCR by 3%pts, principally as result of equity volatility in the year, alongside adverse property markets.

Business review

Other adverse impacts of £0.2 billion reduced the SCCR by 5%pts, and include ongoing project and integration costs, and £0.1 billion impact from setting up a new European subsidiary that was required post-Brexit to continue serving some of our overseas Heritage customers.

We have also proactively chosen to invest £0.4 billion of surplus capital into growth. This includes £0.2 billion of capital investment to fund our first half BPA premiums, reducing the SCCR by 10%pts, and £0.1bn of investment into our organic growth propositions reducing the SCCR by a further 2%pts. We also saw a £0.1 billion net adverse impact arising on the completion of the Sun Life of Canada UK acquisition, which reduced the SCCR by 6%pts.



Sensitivity and scenario analysis

As part of the Group's internal risk management processes, the Own Funds and regulatory SCR are regularly tested against a number of financial scenarios. The following table provides illustrative impacts of changing one assumption while keeping others unchanged and reflects the business mix at the balance sheet date. Extreme market movements outside of these sensitivities may not be linear.

While there is no value captured in the Group stress scenarios for recovery management actions, the Group does proactively manage its risk exposure. Therefore in the event of a stress, we would expect to recover some of the loss reflected in the stress impacts shown. All sensitivities remain within risk appetite and are small in the context of the Group's £3.9 billion Solvency II surplus.

Illustrative risk exposure stress testing

Estimated impact ¹ on PGH Solvency II	Surplus £bn	SCCR %
Solvency II base	3.9	180
Equities: 20% fall in markets	(0.1)	2
Long-term rates: 80bps rise in interest rates ²	0.0	3
Long-term rates: 70bps fall in interest rates ²	0.0	(1)
Long-term inflation: 60bps rise in inflation ³	0.0	1
Property: 12% fall in values ⁴	(0.2)	(7)
Credit spreads: 135bps widening with no allowance for downgrades ⁵	(0.3)	(6)
Credit downgrade: immediate full letter downgrade on 20% of portfolio ⁶	(0.3)	(6)
Lapse: 10% increase/decrease in rates ⁷	(0.1)	(2)
Longevity: 6 months increase ⁸	(0.4)	(7)

1 Assumes stress occurs on 1 July 2023 and that there is no market recovery.

2 Assumes the impact of a dynamic recalculation of transitionals and an element of dynamic hedging which is performed on a continuous basis to minimise exposure to the interaction of rates with other correlated risks including longevity.

3 Stress reflects a structural change in long-term inflation with an increase of 60bps across the curve

4 Property stress represents an overall average fall in property values of 12%

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

6 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc). This sensitivity assumes the annuity portfolio is rebalanced back towards its original credit rating profile and makes allowance for losses from the spread widening which would be associated with downgrades.

7 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

8 Applied to the annuity portfolio.

Managing rewarded and unrewarded market risks

We have a particularly low appetite for equity, interest rate, inflation and currency risks, which we see as unrewarded, i.e. the return on capital for retaining the risk is lower than for hedging it. In order to stabilise our SII surplus, we regularly monitor risk exposures and use a range of hedging instruments to remain within a Board approved target range.

We do retain the credit and property risk in our c.£34 billion shareholder credit portfolio, where we see these risks as rewarded. The shareholder credit assets are primarily used to back the Group's annuity portfolio, where exposure to these risks is needed to cashflow match the annuity liabilities. Stress testing is used to inform the level of risk to accept and to monitor exposures against risk appetite.

We actively manage our portfolio to ensure it remains high quality and diversified, and to maintain our sensitivities within risk appetite. Our portfolio is 99% investment grade, and during the first half we have seen more credit upgrades than downgrades and suffered no defaults; testament to the proactive approach taken by our in-house asset management team.

We also remain conservative in our property exposure. We have c.£4 billion of our credit portfolio exposed to Equity Release Mortgages, which is all UK based with an average rating of AA and average loan-to-value ('LTV') of 33%, and c.£1.0 billion in Commercial Real Estate which is high quality and all UK-based with an average LTV of 48%.

Managing demographic risks

We have three key demographic risks that we manage. Lapse risk arises from customers surrendering policies early or keeping policies with valuable guarantees for longer, which we manage through our strong customer service proposition. Our longevity risk principally arises from our annuity book, but this is managed through reinsurance. We retain around half of this risk across our current in-force book, and reinsure most of this risk on new business. Mortality risk arises from our protection business and we seek to manage this as part of a well-diversified portfolio.

Life company free surplus

Life company free surplus represents the Solvency II surplus of the life companies that is in excess of their Board-approved capital management policies. It is this free surplus from which the life companies remit cash to Group. As at 30 June 2023, the life company free surplus was £1.7 billion (FY 2022: £2.3 billion). The following table analyses the movement in the period.

	Estimated position as at 30 June 2023 £bn
Opening free surplus	2.3
Surplus generation and release of capital requirements	0.3
Management actions	0.5
Cash remittances to holding companies	(0.8)
New business strain including BPA	(0.3)
Cash remittances from holding companies to fund BPA	0.2
Economics	(0.2)
Other	(0.3)
Closing free surplus	1.7

Business review

Growth

£885m

Incremental new business
long-term cash generation

£269bn

Assets under administration

Incremental new business long-term cash generation reflects the impact on the Group's future cash generation arising as a result of new business transacted in the year. It is stated on an undiscounted basis.

Assets under administration ('AUA') provide an indication of the potential earnings capability of the Group arising from its insurance and investment business, whilst AUA flows provide a measure of the Group's ability to deliver new business growth. A reconciliation from the Group's IFRS statement of consolidated financial position to the Group's AUA is provided on page 88.

Please see the APM section on page 92 for further details of these measures.

Incremental new business long-term cash generation

I am delighted that we have more than doubled incremental new business long-term cash generation to £885 million in the first half (HY 2022: £430 million). This is a fantastic start to the year, enabled by the success of our organic growth strategy and demonstrates the attractive return on the surplus capital we are investing into growth.

Retirement Solutions

The BPA market is particularly buoyant with an unprecedented number of schemes coming to market due to high interest rates having narrowed the funding gap for many defined benefit pensions schemes and therefore making BPAs more affordable for trustees. Our strong BPA proposition and the strength of the Standard Life brand is helping us to win new business in a competitive market. However, we remain disciplined in our participation to ensure we are optimising our return on capital and to ensure we limit credit risk to a diversified proportion of our balance sheet.

I'm really pleased with the strong start we have made to 2023, having doubled our BPA premiums year-on-year, with £3.2 billion of premiums completed across 10 external transactions (HY 2022: £1.6 billion). This has delivered a record first half £665 million of long-term cash generation, a 136% year-on-year increase (HY 2022: £282 million).

We have invested around £195 million of capital in the first half, meaning our strain has remained broadly stable at 6% (FY 2022: 5.8%) inclusive of our capital management policy (3.9% on a pre-capital management policy basis). Despite a competitive market, we have also maintained our pricing discipline and been targeted in our scheme selection to enable us to achieve an attractive cash multiple of 3.4x.

Pensions & Savings - Workplace

Building on the momentum we saw in 2022, our Workplace business continues to grow through the Standard Life brand. This is due to the investment we have made into our enhanced Workplace proposition, which is helping us to both retain our existing schemes, and win new schemes in the market.

Strong scheme retention enables us to reduce our outflows and to stabilise the inflows from our existing business. This means we can then benefit from the Workplace compounding "flywheel" effect of new business growth coming from new joiners to our existing schemes, and increased member contributions including salary inflation.

Given there is no acquisition cost to incur on these incremental flows, and our customer administration platform is already highly cost efficient, this embedded growth generates high levels of long-term cash generation. This has enabled us to deliver a significantly improved level of incremental new business long-term cash generation of £184 million in the period, a 64% year-on-year increase (HY 2022: £112 million). Although, as ever, it is important to note that Workplace new business long-term cash generation is seasonally more weighted to the first half, due to the annual first half benefit from salary increases.

In addition to the embedded growth from our existing schemes, we are also now winning new schemes in the market. These will both increase the stock of existing assets and accelerate new inflows, driving future incremental new business long-term cash generation over time.

Pensions & Savings - Retail

Incremental new business long-term cash generation of £11 million from our Retail business is broadly stable year-on-year (HY 2022: £12 million). While the current new business contribution from this area of the business is small, it has remained resilient against a challenging economic backdrop for our retail customers. We are firmly focused on leveraging our strong Standard Life brand and access to our c.12 million existing customers, to develop innovative retirement savings and income solutions to support growth in this business over the long term.

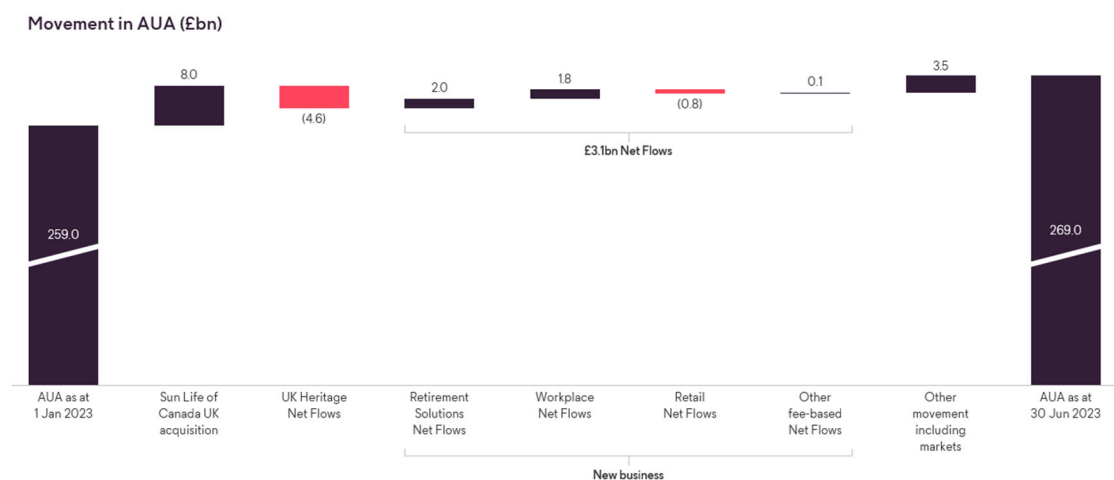
Europe and SunLife

The incremental new business long-term cash generation from our European and SunLife businesses at £25 million (HY 2022: £24 million), is broadly stable year-on-year, with the resilient outcome pleasing given the difficult economic backdrop for these businesses.

Group AUA

Group AUA as at 30 June 2023 was £269 billion (FY 2022: £259 billion), with the increase in the period largely driven by the inclusion of c.£8 billion of AUA from Sun Life of Canada UK following the completion of this acquisition in April.

From a net fund flows perspective, I am delighted to see that we are closing the gap on our Group net outflows which totalled £1.5 billion (HY 2022: £3.1 billion), through stronger new business inflows and reduced Heritage outflows. Our strong ongoing progress and our pipeline ahead in both Workplace and BPA means that I am now confident that we are on track to deliver positive Group net inflows from 2024, for the first time in Phoenix's history.



Heritage run-off net flows

Heritage run-off net outflows in the period were £4.6 billion (HY 2022: £4.9 billion net outflows), which reflect policyholder outflows on claims such as maturities and surrenders, net of total premiums received in the period from in-force contracts.

New Business net flows

New Business net inflows in the period were £3.1 billion (HY 2022: £1.8 billion net inflows), which reflect the net fund inflows from our organic growth businesses that are open to new business, including Retirement Solutions, Pensions & Savings, Europe and SunLife. Individual business segments are explained in further detail below.

Retirement Solutions net flows

Net inflows in Retirement Solutions, which encompasses our BPA and individual annuity businesses, were £2.0 billion in the period (HY 2022: £0.4 billion net inflow). Gross inflows during the period were £3.4 billion (HY 2022: £1.9 billion), inclusive of £3.2 billion of new BPA premiums written over the first six months. This is an impressive 100% increase year-on-year (HY 2022: £1.6 billion), demonstrating the strength of our BPA proposition. Outflows of £1.4 billion in the period (HY 2022: £1.5 billion) primarily reflect the natural run-off of our in-payment annuities.

Pensions & Savings: Workplace net flows

Net inflows within our fee-based Workplace business were £1.8 billion in the period (HY 2022: £1.7 billion net inflow), slightly up year-on-year after being in net outflow prior to 2022. This demonstrates the strong momentum we have built in our Workplace business over the past 18 months. Gross inflows were £3.4 billion, slightly up on prior year (HY22: £3.2 billion), partly reflecting increased flows due to new joiners to existing schemes and increased member contributions including salary increases. The outflows year to date of £1.6 billion is broadly consistent with HY 2022 (£1.5 billion) and largely reflects individual customers taking their retirement savings.

Our enhanced proposition means that we are both retaining our existing schemes and winning new schemes in the market. I am pleased to see the momentum in our new scheme wins accelerating. Importantly, we are now winning the big schemes too, which has enabled us to attract around £3 billion of new scheme assets over the past 12 months. These will transfer across to us in 2024 and 2025, therefore benefitting future net fund flows. We are also quoting on a strong pipeline of new schemes, totalling c.£3.5 billion of assets, and we are confident of winning further schemes over time.

Pensions & Savings: Retail net flows

Net outflows within our Retail businesses were £0.8 billion in the period (HY 2022: £0.7 billion net outflow), broadly consistent year-on-year, with a marginal improvement in gross inflows at £1.0 billion in the period (HY 2022: £0.9 billion). This is really pleasing, given the difficult macro environment in the Retail market. Outflows year to date are £1.8 billion (HY 2022: £1.6 billion), largely reflecting the natural run-off.

Europe and SunLife net flows

We have seen net inflows of £0.1 billion (HY 2022: £0.4 billion net inflows) from our Europe and SunLife businesses. Gross inflows in the period were £1.2 billion (HY 2022: £1.3 billion), primarily reflecting our individual retirement products sold in the UK and Europe. Outflows were £1.1 billion in the period (HY 2022: £0.9 billion) and are largely due to the natural run-off of our European business.

Other movements including markets

AUA increased by £3.5 billion (HY 2022: £38.5 billion decrease), largely due to the impact of rising equity markets.

Business review

IFRS results

£266m

Adjusted operating profit

25%

Fitch leverage ratio¹

£(245)m

IFRS statutory loss after tax

IFRS profit/(loss) is a GAAP measure of financial performance and is reported in our statutory financial statements on page 31. Following the adoption of IFRS 17: 'Insurance Contracts', comparatives shown have been restated from 1 January 2022.

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

Please see Note 4 to the financial statements and the APM section on page 92 for further details of this measure.

IFRS 17 transition

IFRS 17 is a global accounting standard that was implemented on 1 January 2023 and is an accounting change which does not alter the underlying economics of our business. As a result, IFRS 17 does not change our strategy or dividend, and we will remain focused on delivering cash and capital.

As a result of our successful track record of delivering value-accretive M&A and subsequent integration activity, c.95% of our business was recognised at fair value on transition, which results in the establishment of a lower Contractual Service Margin ('CSM') and also increases the volatility in our shareholders' equity.

IFRS adjusted shareholders' equity (inclusive of the CSM net of tax) was £5.2 billion at 31 December 2022, 24% higher than IFRS 4 shareholders' equity of £4.2 billion (see APM section on page 92 for further details of this measure). The Group's CSM (gross of tax) at 31 December 2022 was £2.6 billion and this grew at 7% year-on-year in 2022. It represents a significant store of future profits and is expected to release into the IFRS income statement at c.5-7% per annum.

IFRS shareholders' equity was £3.2 billion at 31 December 2022, which is 24% lower than IFRS 4 of £4.2 billion, due primarily to £(0.4) billion lower operating profit as a result of items transferred to the CSM, and a £(0.7) billion adverse economic impact from increased accounting volatility under IFRS 17 related to our hedging approach.

Adjusted operating profit before tax for FY 2022 was £0.6 billion, which is c.50% lower than under IFRS 4 of £1.2 billion. This principally reflects the transfer of £(0.4) billion of items to the CSM including annuity new business profits and model, methodology and assumption changes, as well as £(0.2) billion of items not recognised in adjusted operating profit under IFRS 17, and a £(0.2) billion lower contribution from With-Profits and Unit-Linked business. These adverse movements are partially offset by a £0.2 billion release of the CSM.

HY 2023 IFRS financial performance

IFRS profit and loss statement		Restated	
£m	30 June 2023	30 June 2022	
Heritage ²	117	114	
Open ²	182	171	
Corporate Centre ²	(33)	(31)	
Adjusted operating profit before tax	266	254	
Investment return variances and economic assumption changes	(253)	(1,540)	
Amortisation and impairment of intangibles	(161)	(175)	
Other non-operating items	(206)	(146)	
Finance costs	(99)	(103)	
Profit before tax attributable to non-controlling interest	16	31	
Loss before tax attributable to owners	(437)	(1,679)	
Tax credit attributable to owners	192	421	
Loss after tax attributable to owners	(245)	(1,258)	

1 Fitch leverage ratio is estimated by management on an IFRS 17 basis and reflects the adoption of a market-consistent ratio calculation methodology. Ratio allows for currency hedges over foreign currency denominated debt

2 30 June 2022 has been restated under IFRS 17 and reflects the allocation of expenses from service companies, previously shown as their own business segment

IFRS loss after tax attributable to owners

The Group generated an IFRS loss after tax attributable to owners of £245 million (HY 2022: loss of £1,258 million), with the year-on-year reduction primarily reflecting a £1,287 million reduction in economic variances due to a much lower level of market volatility in the period, particularly interest rates.

Basis of adjusted operating profit

Adjusted operating profit is based on expected investment returns on financial investments backing business where assets returns accrue to the shareholder and surplus assets over the reporting period, with allowance for the corresponding expected movements in liabilities (being the interest cost of unwinding the discount on the liabilities). Adjusted operating profit includes the unwind of the CSM and risk margin attributable to the shareholder.

The principal assumptions underlying the calculation of the long-term investment return are set out in Note 5.1 to the IFRS condensed consolidated interim financial statements.

Adjusted operating profit includes the effect of variances in experience relating to the current period for non-economic items, such as mortality and expenses. It also incorporates the impacts of asset trading and portfolio rebalancing where not reflected in the discount rate used in calculating expected return. Any difference between expected and actual investment return, along with other economic variances described further in Note 4.1 are shown outside of adjusted operating profit. Adjusted operating profit is net of policyholder finance charges and policyholder tax.

Adjusted operating profit

The Group generated increased adjusted operating profit of £266 million (HY 2022: £254 million), which reflects an increase in the CSM release from BPA new business and from positive assumption changes relating to the prior year.

Heritage adjusted operating profit

Our Heritage business segment does not actively sell new life or pension policies and runs-off gradually over time. Our Heritage segment delivered operating profit of £117 million in the period, broadly consistent year-on-year (HY 2022: £114 million).

Open adjusted operating profit

The Group's Open business segment delivered an operating profit of £182 million (HY 2022: £171 million). This includes operating profits generated in the Group's Retirement Solutions business, Pensions and Savings business, as well as new business distributed through the Group's SunLife brand and our European operations. The increase year-on-year primarily reflects an increase in the CSM release from both BPA new business and positive assumption changes in the prior year.

Corporate Centre

Corporate Centre includes group costs in the period of £33 million (HY 2022: £31 million), which was broadly stable year-on-year and mainly comprise project recharges from the service companies.

Investment return variances and economic assumption changes

The net adverse economic variances of £253 million (HY 2022: £1,540 million) have primarily arisen as a result of rising yields and a rise in global equity markets, offset by rising inflation, narrowing credit spreads and strengthening of GBP. Movements in yields, inflation, currency and equity markets are hedged to protect our Solvency II surplus from volatility, but our IFRS balance sheet is, in effect, 'over-hedged' as it does not recognise the additional Solvency II balance sheet items such as future profits on investment contracts measured under IFRS 9 and the Solvency Capital Requirements. While this gives rise to volatility in the IFRS results, importantly the Group's cash generation and dividend capacity are unaffected by this due to the Group's resilient Solvency II surplus.

Amortisation and impairment of acquired in-force business and other intangibles

The previously acquired in-force business, relating to IFRS 9 accounted capital-light fee-based business, is being amortised in line with the expected run-off profile of the investment contract profits to which it relates. The amortisation and impairment of acquired in-force business during the period of £158 million (HY 2022: £172 million) has decreased year-on-year reflecting the impact of the run-off. Amortisation and impairment of other intangible assets totalled £3 million in the period (HY 2022: £3 million).

Other non-operating items

Other non-operating items in the period totalled a £206 million loss (HY 2022: £146 million loss). This includes £59 million of expenditure to support our growth strategy and a £52 million impact from setting up a new European subsidiary that was required post-Brexit to continue serving some of our overseas Heritage customers. Other items include £38 million of costs relating to our integration and finance transformation activities, £17 million in respect of ongoing transition and transformation projects, £52 million of other corporate project costs, and net other one-off items totalling £17 million. This was partially offset by a £66 million gain on the acquisition of Sun Life of Canada UK.

Finance costs

Finance costs of £99 million reflect interest borne on the Group debt instruments and is stable year-on-year (HY 2022: £103 million).

Business review

Tax charge attributable to owners

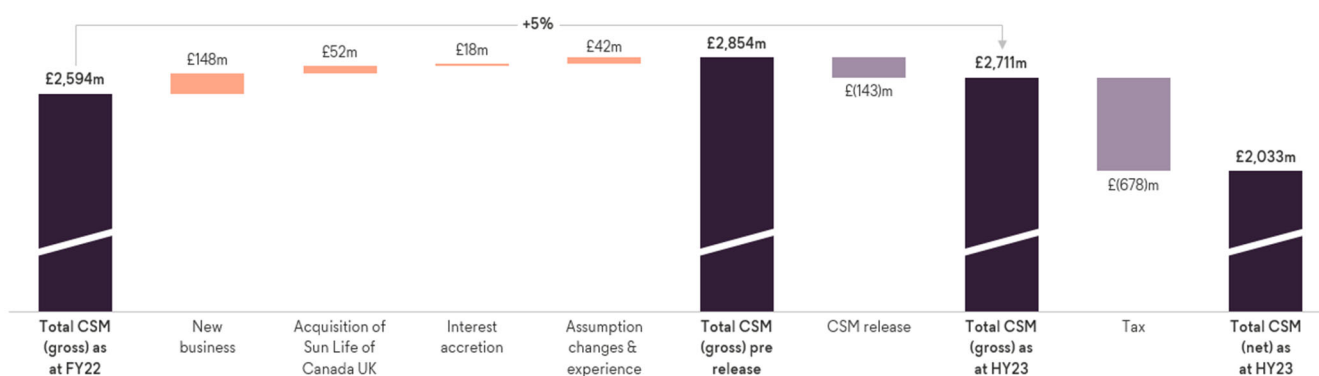
The Group's approach to the management of its tax affairs is set out in its Tax Strategy document which is available in the corporate responsibility section of the Group's website. The Group tax credit for the period attributable to owners is £192 million (HY 2022: £421 million tax credit) based on a loss (after policyholder tax) of £437 million (HY 2022: loss of £1,679 million). A reconciliation of the tax charge is set out in Note 7 to the IFRS condensed consolidated interim financial statements.

Contractual Service Margin ('CSM')

The CSM represents a stock of future profits that will unwind into the profit and loss in future years.

The Group had a CSM (gross of tax) of £2.7 billion as at 30 June 2023, which grew by 5% in the first half (FY 2022: £2.6 billion) primarily due to new BPA business written and the acquisition of the Sun Life of Canada UK business in 2023, which is partly offset by the CSM release into the income statement. The CSM release of £143 million has increased by 25% year on year (HY 2022: £114 million), reflecting the growth in annuity CSM from new business and favourable assumption changes relating to the prior year. This release represents 5% of the closing CSM (gross of tax) pre-release of £2.9 billion.

Group CSM movement from 1 Jan 2023 to 30 Jun 2023



Fitch leverage ratio

The Group's debt instruments have a credit rating provided by Fitch Ratings, where the Group seeks to maintain an investment grade credit rating. The Group therefore targets a Fitch leverage ratio range of 25-30%, as this is a key factor in determining an investment grade credit rating under the Fitch methodology. During 2023 the Group has updated its Fitch leverage ratio calculation for IFRS 17, alongside which it updated the calculation to include a share of the policyholder estate for market consistency, and this was agreed with Fitch as part of our annual review.

As at 30 June 2023, the Group's Fitch leverage ratio is 25%¹ which is unchanged compared to FY 2022 on a restated basis (25%¹). The ratio is therefore at the bottom of our target range, which provides debt leverage capacity for future M&A if required.

¹ FY22 restated Fitch leverage ratio is estimated by management on an IFRS 17 basis and reflects the adoption of a market-consistent ratio calculation methodology. Ratio allows for currency hedges over foreign currency denominated debt

Dividend

2023 Interim dividend

As ever, our 2023 Interim dividend of 26.0 pence per share is equal to the 2022 Final dividend, which is therefore a 5% year-on-year increase compared to the 2022 Interim dividend. This reflects the strong dividend growth we delivered as a result of our 2022 performance.

2023 dividend outlook

Our dividend policy is to “pay a dividend that is sustainable and grows over time” and we are well positioned to deliver on this policy in 2023 and beyond.

In line with our policy, the Board will review our 2023 business performance across a broad range of strategic and financial metrics, ahead of the Full Year results next year, and consider the level of the Final 2023 dividend at that time.

Outlook

Looking ahead

Phoenix has delivered a strong set of financial results in the first half of 2023, across our financial framework of cash, resilience and growth, through executing our strategy and delivering on our purpose. I am confident that the momentum we have built in the first half leaves us well positioned to deliver a successful second half and beyond.

We are on track to deliver all of our financial targets for 2023. This includes delivering at the top-end of our 2023 cash generation target range of £1.3-to-£1.4 billion, and maintaining our resilient balance sheet by operating within our target ranges for our SCCR (140-180%) and Fitch leverage ratio (25-30%).

We remain focused on allocating capital, in line with our capital allocation framework, that ensures we only invest in growth opportunities that drive real value for our shareholders. With our SCCR currently at the top-end of our target range at 180%, we have surplus capital available to invest into both organic and inorganic growth opportunities going forward.

We have had a strong first half from an organic growth perspective, with £885 million of incremental new business long-term cash generation already delivered. I am therefore confident that we will deliver another strong year of organic growth across 2023 that exceeds 2022, as we progress towards our target of delivering c.£1.5 billion per annum by 2025.

We expect the BPA market to remain buoyant due to the structural growth drivers that are being accelerated by the current economic environment, where we have a strong pipeline of business that we are quoting on and are therefore confident of fully investing our target capital allocation of around £300 million into BPA for 2023. In addition, we expect the momentum we have built in our Workplace market to continue driving growth in our capital-light fee-based business.

The success of our organic growth strategy also means that we are seeing an acceleration in our new business net fund flows. We are writing new BPA premiums that are more than offsetting the annuity run-off profile, while the strong retention in our Workplace business is enabling us to benefit from the embedded growth in our existing schemes and is reducing our outflows. We also continue to win new Workplace schemes, which further grows our baseline stock of assets and also accelerates our future new business growth over time.

As a result, we now expect our new business inflows to more than offset the Heritage run-off outflows in 2024, to achieve positive Group net fund flows for the first time. A pivotal moment for Phoenix.

Whilst recognising the ongoing challenges of the difficult macro environment for many, counterintuitively higher inflation and interest rates are accelerating our structural growth opportunities across the market. We are therefore confident that the Group is well-positioned to continue delivering on our strategy.

Our comprehensive approach of hedging equity, interest rates, currency and inflation risk, combined with our prudent management of credit risk, protects both our Solvency II surplus, and our Group long-term free cash, from future market volatility. This underpins our resilient cash generation which means we can confidently continue to invest into organic and inorganic growth, and pay a dividend that is sustainable and grows over time.

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

Rakesh Thakrar

Group Chief Financial Officer

Principal risks and uncertainties facing the Group

The Group's principal risks and uncertainties are detailed in this section, together with their potential impact, mitigating actions in place and any change in risk exposure since the Group's 2022 Annual Report and Accounts, published in March 2023.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the Group, including risks that would threaten its business model, future performance, solvency or liquidity. The Board Risk Committee has carried out a robust assessment of principal risks and emerging risks for the Interim Report. As a result of this review, the 13 risks noted in the Group's 2022 Annual Report and Accounts have been retained, with no changes to the overall level of risk exposure.

Risk Environment

The external risk environment remains uncertain and is driven by a combination of factors that may have implications for the Group, its customers and colleagues. These include:

- The global macro-economic environment is highly uncertain and volatile as a result of rising interest rates, inflation and geopolitical risks
- The cost of living crisis and persistent high inflation is negatively affecting the lives of the Group's customers, particularly those most vulnerable, as borrowing costs rise. The Group is using customer behaviour research and analysis to support customers, including providing cost-of-living support and information across all contact channels and encouraging customers to get in touch for help.
- Geopolitical risk remains prominent, including the ongoing effects arising from the conflict in Ukraine, and the risks of supply chain disruption including that arising from deterioration in the relationship between the United States of America and China. The Group continues to monitor developments across the political environment.
- The regulatory change agenda continues to have potentially significant implications for the Group. The Group has ongoing engagement with the Treasury and PRA on the draft Solvency II Reforms. Compliance with the FCA's new Consumer Duty continues to be a priority, having achieved material compliance for open products at 31 July 2023, focus turns to closed products ahead of the 31 July 2024 deadline. Further work is required to streamline and automate IFRS 17 processes to support efficient financial reporting in the future.

The Group's Risk Management (RMF) and rigorous Stress and Scenario Testing (SST) Programme are essential in helping it to understand its risks exposures and how these change in stressed circumstances. During 2023, the SST Programme tested the Group's resilience to both financial and non-financial stressed events and this continues to be monitored by the Board Risk Committee.

Strategic priorities: **1** Optimise our in-force business **2** Grow organically and through M&A **3** Enhance our operating model and culture

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
Strategic risk				
<p>The Group fails to make further value adding acquisitions or effectively transition acquired businesses</p>	<p>The Group is exposed to the risk of failing to drive value through inorganic growth opportunities, including acquisitions of life and pensions books of business.</p> <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 failing to deliver the expected outcomes for customers or value for shareholders.</p>	<p>The Group continues to assess and execute new inorganic growth opportunities and applies a clear set of criteria to assessing these opportunities.</p> <p>The Group's acquisition strategy is supported by the Group's financial strength and flexibility, strong regulatory relationships and its track record of generating value and delivering good customer outcomes that are in line with expectations.</p> <p>The financial and operational risks of target businesses are assessed in the acquisition phase and potential mitigants are identified.</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>Customer migrations are planned thoroughly with robust execution controls in place. Lessons learned from previous migrations are applied to future activity to continue to strengthen the Group's processes.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>This risk was assessed as 'Heightened' in the Group's 2018 Annual Report and Accounts due to the transformational nature of the Standard Life acquisition. The assessment of the level of exposure to this risk is unchanged from the 2018 position due to the impact of ongoing acquisition and transition activity.</p> <p>The integration of ReAssure Ltd is continuing as planned, with the integration of key functions progressing well. Functions to still be integrated includes Finance and Asset Management. The Group continues to develop its partnership with TCS to support its strategic deliverables. Further customer migrations are planned through to 2026, which will support delivery of the Group's strategic objectives.</p> <p>On 7 February 2023, the Group announced that a further c. 3 million policies, currently administered on the ReAssure Alpha platform, would be transitioned to the TCS BaNCS platform by 2026. Detailed planning is underway for these migrations, which will enable all Phoenix policies to benefit from TCS' significant ongoing investment in the platform.</p> <p>The Group completed its purchase of Sun Life Assurance Company of Canada UK, a UK heritage book life insurance company, on 3 April 2023. As a result, the Group has grown by a further 480,000 in-force policies and £10 billion of assets under management. The acquisition is expected to deliver c. £500 million of incremental long-term cash generation. Detailed integration activity has commenced.</p>
<p>The Group's strategic partnerships fail to deliver the expected benefits</p>	<p>Strategic partnerships are a core enabler for delivery of the Group's strategy; they allow it to meet the needs of its customers and clients and deliver value for its shareholders. The Group's end state operating model will leverage the strengths of its strategic partners whilst retaining in-house key skills that differentiate it from the market.</p> <p>However, there is a risk that the Group's strategic partnerships do not deliver the expected benefits leading to adverse impacts on customer outcomes to adverse impacts on customer outcomes, strategic objectives, regulatory obligations and the Group's reputations and brand.</p> <p>Some of the Group's key strategic partnerships include:</p> <p>abrdrn plc: Provides investment management services to the Group including the development of investment solutions for customers. abrdrn plc manages c. £147.5 billion of the Group's assets under administration, at 30 June 2023.</p> <p>TCS: The Group's enlarged partnership with TCS is expected to support growth plans for the Retirement Solutions and Pensions and Savings businesses, enabling further market-leading digital and technology capabilities to be developed to support enhanced customer outcomes.</p>	<p>The Group has established engagement processes with abrdrn plc to oversee and develop the strategic partnership. These processes reflect the simplified and extended strategic partnership between the Group and abrdrn plc that was announced in February 2021.</p> <p>The Group's engagement with Diligenta, and its parent TCS, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of the enlarged partnership. This includes working with Diligenta to implement the Group's approach to the new Consumer Duty.</p> <p>The Group has 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 and has business continuity plans to deploy should there be a significant failure of a strategic partner.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>During 2023 the Group has continued to strengthen controls around the operation of its strategic partnerships, who are critical to the successful delivery of the Group's strategic objectives and to achieving good outcomes for the Group's c. 12 million customers.</p> <p>The Group continues to develop its partnership with TCS to support its strategic deliverables. Planning for further c. 3 million policies to be transferred from the Group's Alpha administration platform as the Group progresses towards TCS BaNCS being the sole administration platform for all customer policies.</p> <p>During the first six months of 2023, the Group successfully transferred £470 million of custody accounts for Phoenix Wealth to HSBC, further boosting its strategic partnership.</p> <p>The simplified and extended partnership with abrdrn plc continues to advance towards the Target Operating Model with significant progress towards the transfer of Wrap platform products expected in 2023 ahead of the transfer occurring in subsequent years. .</p>

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
	<p>HSBC: Provides custody and fund accounting services to the Group to manage c. £112 billion of its unit-linked operations.</p>			
<p>The Group fails to deliver long-term organic growth</p>	<p>The Group 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 against 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 customers journey to and through retirement.</p>	<p>The Group's Business Unit structure brings renewed focus and accountability. The key areas of growth are Pensions & Savings and Retirement Solutions.</p> <p>Each Business Unit holds an annual strategy setting exercise to consider the needs of potential and existing customers, the interests of shareholders, the competitive landscape and the Group's overall purpose and objectives.</p> <p>The Group's Annual Operating Plan commits it to making significant investment in its Pension & Savings and Retirement Solutions businesses, which will include propositions that are driven by customer insight.</p> <p>The Group is established in the Bulk Purchase Annuities ('BPA') market and continues to invest in its operating model to further strengthen its capability to support its growth plans.</p> <p>For new BPA business, the Group continues to be selective and proportionate, focusing on value not volume, by applying its rigorous Capital Allocation Framework.</p>	<p>2</p> <p>3</p>	<p>At its Capital Markets Event in 2022, the Group set its first incremental new business long-term cash generation target as a result of the significant progress made by both Pensions & Savings and Retirement Solutions. Following this, the Group viewed this risk as 'Improving' in the 2022 Annual Report and Accounts, reflecting both the demonstrated success of the strategy to pursue organic and inorganic growth, and the challenging nature of the target set; this view of the level of risk exposure is unchanged.</p> <p>In the first six months of 2023, the Group completed BPA transactions with a combined premium of £3.2 billion. This continues to demonstrate that the Group has the ability to compete and win in the BPA market.</p> <p>The Pensions and Savings Business, operating under the Standard Life brand, has developed its operating model to centre around three Trading Channels Workplace, Retail Intermediated and Retail Direct.</p> <p>In Workplace, the Group continues to attract good flows in. The Group continues to recruit to increase its capability in terms of proposition and distribution; 54 new scheme wins have been confirmed in the first six months of 2023 (compared with 76 for the full year in 2022), and the Group is actively managing a number of enquiries.</p> <p>The operating model and organisational design are being developed and implemented for the Retail businesses, with the aim of maximising opportunities for growth, both directly with customers and through advisers, from new and existing customers. During H1 2023, c.£0.5bn of assets were internally transferred to Retail Direct to enable existing customers to access modern pension offerings to support them to and through retirement.</p> <p>The Group is looking to expand the current offering of financial guidance and advice to support customers in better preparing for their retirement.</p>
<p>The Group does not have sufficient capacity and capability to fully deliver its significant change agenda which is required to execute the Group's strategic objectives</p>	<p>The Group's ability to deliver change on time and within budget could be adversely impacted by insufficient resource and capabilities as well as inefficient prioritisation, scheduling and oversight of projects. The risk could materialise within both the Group and its strategic partners.</p> <p>This could result in the benefits of change not being realised by the Group in the time frame assumed in its business plans and may result in the Group being unable to deliver its strategic objectives. Poor change delivery could affect the Group'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 operations 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>1</p> <p>2</p> <p>3</p>	<p>There has been no change to the assessment of exposure to this risk, which reflects the potential impact of failing to deliver the Group's significant strategic and regulatory change agenda, since its introduction in the 2020 Annual Report and Accounts.</p> <p>The Group has continued to strengthen its Change Management Framework during 2023 and expects to see an improving trend in this risk as those enhancements are seen in project delivery. The Group's Chief Operating Officer, Jackie Noakes, is driving further enhancements planned for 2023 to evolve and mature the Group's change operating model. These should also have a positive impact on this risk. However, exposure remains until this work is complete which the Group expects to be in Q2 2024.</p>

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
<p>The Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks</p>	<p>The Group is exposed to the risk of failing to respond adequately to Environmental, Social and Governance ('ESG') risks and delivering on its social purpose, for example, failing to meet and make its sustainability commitments.</p> <p>A failure to manage ESG risk could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness, reputational risks and litigation.</p> <p>The Group is exposed to risks arising from the transition to a lower-carbon economy, which could result in a loss in the value of policyholder and shareholder assets.</p> <p>In addition, physical risk can give rise to financial implications, such as direct damage to assets, operational impacts either direct or due to supply chain disruption, and impacts on policyholder health and wellbeing, impacting demographic experience.</p>	<p>Sustainability risk and Climate risks are both embedded into the Group's RMF.</p> <p>Climate risk 'cross-cuts' the Group's Risk Universe. This means the consideration of material climate-related risks in embedded across the Group's risk policies, with regular reporting undertaken to ensure ongoing visibility of its exposure to these risks. A specific Sustainability Risk Policy is also in place.</p> <p>The Group is actively integrating the consideration of ESG risks into its processes, including in its investment decisions.</p> <p>The Group continues to engage with suppliers and asset managers on their progress and approach managing climate change and wider ESG risks.</p> <p>The Group undertakes annual climate-related stress and scenario testing and continues to build its climate scenario modelling capabilities.</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>1</p> <p>2</p> <p>3</p>	<p>There has been no change to the assessment of the overall level of this risk since its introduction in the 2019 Annual Report and Accounts. The Group is making good progress on integrating the management of climate change and wider ESG risks across the business, including in investment portfolios with further work underway to embed fully across the business.</p> <p>The external ESG environment is changing rapidly, particularly with new regulation and changing government policies.</p> <p>The Group is cognisant of this changing environment and has undertaken several deep dives on emerging ESG risk areas such as Greenwashing risk and ESG Litigation, and is currently undertaking a deep dive on nature risk in investment portfolios. These investigations have increased awareness for Boards and management of the risks within the business and facilitated control improvements where appropriate.</p> <p>The successful delivery of the Group's net-zero targets has a dependency on the decarbonisation of the wider economy and evolution of public policy. Anti-climate change and ESG sentiment, particularly in high carbon-emitting countries, could have far reaching consequences for the pace and effectiveness of climate action and policy changes. This could limit investment opportunities and make it more difficult for the Group to manage the risk and meet its climate commitments.</p> <p>Progress has been made in delivering the Group's Net-Zero and wider sustainability targets, which continue to be assessed and monitored. The Group published its inaugural Net-Zero Transition Plan in May 2023.</p> <p>More information on the Group's sustainability targets and actions can be found in the 2022 Sustainability Report.</p>
CUSTOMER RISK				
<p>The Group fails to deliver good outcomes for its customers or fails to deliver propositions that continue to meet the evolving needs of customers</p>	<p>The Group is exposed to the risk that it fails to deliver good outcomes for its customers, leading to adverse customer experience and potential customer harm. This could also lead to reputational damage for the Group and/or financial losses.</p> <p>In addition a failure to deliver propositions that meet the evolving needs of customers may result in the Group's failure to deliver its purpose of helping people secure a life of possibilities.</p>	<p>The Group's Conduct Risk Appetite sets the boundaries within which the Group expects customer outcomes to be managed.</p> <p>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.</p> <p>The Group has a suite of customer policies that set out key customer risks and the Control Objectives that determine the Key Controls required to mitigate them.</p> <p>The Group maintains a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes.</p> <p>The Group's Proposition Development Process ensures consideration of customer needs and conduct risk when developing propositions.</p>	<p>1</p> <p>2</p>	<p>The FCA's Consumer duty represents a step change in approach for the industry re-enforcing a shift away from a rules-based regime to principles-based regulation. The Duty introduces an overarching requirement that firms, and their employees must act to deliver good outcomes for retail customers. In response, the Group mobilised a programme of work to implement the changes required to achieve its interpretation of compliance in line with the key regulatory deadlines of end-April 2023, end-July 2023 and end-July 2024.</p> <p>Despite having met the first two deadlines, the Group's view is that the risk exposure around the Duty is currently heightened whilst the supervisory approach matures and closed products are reviewed against the Duty's principles, most notably fair value, ahead of the 31 July 2024 deadline. The FCA is "raising the bar" in terms of expectations on firms to ensure and evidence good outcomes are being achieved for their customers. While the FCA is providing guidance to the industry to support firms' plans to embed the Duty within their businesses, it recognises that its own understanding and development of guidance and supervisory approach requires ongoing definition and development.</p> <p>The Group continues to monitor the impacts of the cost-of-living crisis on its customers. Proactive action to support customers, including those most vulnerable, is a priority. The Group is using customer behaviour research and analysis to provide customers with the support and help that they need. This has included improving all brand websites to provide general cost-of-living support, encouraging customers to get in touch for help and including links to external support websites.</p>

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
OPERATIONAL RISK				
<p>The Group or its outsourcers are not sufficiently operationally resilient</p>	<p>The Group is exposed to the risk of causing intolerable levels of disruption to its customers and stakeholders if it cannot maintain the provision of important business services when faced with a major operational disruption to core IT systems and operations. This could occur either in-house or within the Group's primary and downstream outsourcers be triggered by a range of environmental and climatic factors such as the cost-of-living crisis and adverse weather phenomena.</p>	<p>The Group's Operational Resilience Framework enhances the protection of customers and stakeholders. It is designed to prevent intolerable harm and supports compliance with the regulations. The Group continues to work closely with its outsource partners to ensure that the level of resilience delivered is aligned to the Group's impact tolerances.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>The strategic risk has been assessed as 'Heightened' in the Group's Annual Report and Accounts since 2020.</p> <p>Key drivers of this assessment are the increasing threat of cyber-attacks and the Group's dependency on its outsource partners to have appropriate resilience to operational disruption.</p> <p>The Group has a significant change and customer migration agenda over the next three to five years effective completion of which is required to deliver planned strengthening of its operational resilience both internally and with some material outsourced service providers. This exposes the group to increased risk. However, this is mitigated through strengthened Operational Resilience and Change Management Frameworks where the risk of late delivery is actively managed by both the relevant change programme and separate operational resilience remediation governance and reporting.</p> <p>The quantum of strategic customer transformation activity requires subject matter expertise to execute successfully. The Group's operational resilience would be impacted by a large-scale loss of colleagues, for example due to illness or incapacity such as influenza, in the UK or globally. Such impacts are difficult to mitigate in the short-term, however the Group made substantial investments in its remote working capability to manage the impacts of COVID-19 which would be expected to help mitigate the impacts of a further pandemic to service continuity.</p>
	<p>The Group regularly conducts customer migrations as part of transition activities in delivering against its strategic objectives. In doing so, it faces the risk of interruption to its customer services, which may result in the failure to deliver expected customer outcomes.</p>	<p>The Group has already taken some action, through previous strategic transformation activity, to reduce exposure to technological redundancy and key person dependency risk, increasing the resilience of its customer service. It continues to do so where further exposure is identified.</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 is already exposed to regulatory censure in the event of operational disruption should the regulator determine that the cause was, fully or in part, a breach of existing regulation.</p>	<p>The Group regularly reviews important business service MI to ensure appropriate action is taken to rectify and prevent customer harm. The Group is working to further strengthen and enhance the overall resilience of the Group and its outsource partners by March 2025 through its Operational Resilience Remediation Project.</p>		
		<p>The Group and its outsourced partners have well established business continuity management and disaster recover frameworks that are annually refreshed and regularly tested. Recent disruption events have demonstrate that these are effective.</p>		
		<p>The Group is undertaking scenarios for a potential cyber-attack against it or its outsourcers. These will identify any material areas in which controls can be improved.</p>		
		<p>The Group actively manages operational capacity and monitors the service continuity required to deliver its strategy, including transition activities. Rigorous planning and stress testing are in place to identify and develop pre-emptive management strategies, should customer migrations impact Services.</p>		
		<p>The Group and its outsource partners have a flexible working model in place. This helps reduce exposure to intolerable disruption for its customers.</p>		
		<p>The Group undertakes proactive horizon scanning to understand potential changes to the regulatory and legislative landscape. This allows the Group to understand the potential impact of these changes to amend working practices to meet the new requirements by the deadline.</p>		

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
<p>The Group is impacted by significant changes in the regulatory, legislative or political environment</p>	<p>Changes in regulation could lead to non-compliance with new requirements that could impact the 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>Political uncertainty or changes in the government could see changes in policy that could impact the industry in which the Group operates.</p>	<p>The Group undertakes proactive horizon scanning to understand potential changes to the regulatory and legislative landscape. This allows the Group to understand the potential impact of these changes to amend working practices to meet the new requirements by the deadline.</p>	<p>1 2 3</p>	<p>This risk was assessed as 'Heightened' in the Group's 2021 Annual Report and Accounts due to the uncertainty around Solvency II Reforms and the FCA's proposed Consumer Duty. These, and the significant undertaking to achieve compliance with IFRS 17 in 2023, were the key drivers of the assessment of risks as further 'Heightened' from that position in the 2022 Annual Report and Accounts and the current assessment is unchanged from that position.</p> <p>The volatile political environment remains 'heightened' due to the economic headwinds facing the current administration, with implications for the Group's customer base, including the cost-of-living crisis, increased borrowing costs and the potential increase in vulnerability.</p> <p>In June 2023, HMT published draft legislation related to the Solvency II reforms. The PRA then issued the first of three anticipated consultations to implement those reforms, with the final consultation expected in Q1 2024. The final form of these changes and the implementation date will not be known until the PRA issues a Policy Statement following its final consultation. 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.</p> <p>These regulations are an important component of the changes needed to the wider UK investment landscape that 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.</p> <p>As noted above, the FCA's Consumer Duty represents an evolution in regulatory approach, introducing an overarching requirement that firms and staff must act to deliver good outcomes for retail customers. The Group views the Duty as well aligned to its strategic priority of helping people secure a life of possibilities and, from 31 July 2023, the Group is materially compliant with the Duty for its open products. However, as the FCA is "raising the bar" in terms of expectations on firms to ensure and evidence good outcomes are being achieved for their customers and the Group's view is that the risk exposure around the Duty is currently heightened. Focus remains on reviewing customer journeys for closed products in order to make any updates needed to achieve compliance with the Duty's principles for these products ahead of the 31 July 2024 deadline, with the Board and FCA being regularly updated on the programme.</p> <p>IFRS 17 aims to standardise insurance accounting across the industry and achieving compliance with for the Group's 2023 interim accounts has been a significant undertaking. The Group will continue its finance transformation programme beyond the 2023 interim accounts to further streamline and automate IFRS 17 processes to support efficient financial reporting in the future.</p>

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
<p>The Group or its Supply Chain are not sufficiently cyber resilient</p>	<p>As the Group continues to grow in size and profile this could lead to increased interest from cyber criminals and a greater risk of cyber-attack which could have significant impact on customer outcomes, strategic objectives, regulatory obligations and the Group's reputation and brand.</p> <p>Based on external events and trends, the threat posed by a cyber security breach remains high and the complexity of the Group's increasingly interconnected digital ecosystem exposes it to multiple attack vectors. These include phishing and business email compromise, hacking, data breach and supply chain compromise.</p> <p>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.</p>	<p>The Group is continually strengthening its cyber security controls, attack detection and response processes, identifying weaknesses through ongoing assessment and review.</p> <p>The Information/Cyber Security Strategy includes a continuous Information Security and Cyber Improvement Programme, which is driven by input from the Annual Cyber Risk Assessment and Annual Cyber Threat Assessment that utilises external threat intelligence sources.</p> <p>The Group continues to consolidate its cyber security tools and capabilities. The Enterprise Information Security Strategy 2023-2025 includes delivery of a Group Identity Platform and Zero Trust model, Supplier Assurance Platform, Secure Cloud Adoption and proactive Data Loss Prevention. The specialist Line 2 Information Security & Cyber Risk team provides independent oversight and challenge of information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions.</p> <p>The Group continues to enhance and strengthen its outsourced service provider and third party oversight and assurance processes. Regular Board, Executive, Risk and Audit Committee engagement occurs within the Group.</p> <p>The Group holds ISO 27001 Information Security Management Certification for its Workforce Pension and Benefits schemes, which provides confidence to both clients/internal stakeholders that it is committed to managing security.</p>	<p>1</p> <p>3</p>	<p>This risk was assessed as 'Heightened' in the Group's 2022 Annual Report and Accounts due to the continuing conflict in Ukraine and this remains the key driver for the assessment of the exposure to this risk, which remains unchanged. Cyber threat levels remain high with 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 that the Group relies upon.</p> <p>On 19 April 2023, the UK's National Cyber Security Centre issued an alert warning of a heightened risk from attack by state-aligned Russian hackers, urging all organisations in the country to apply recommended security measures. Figures reveal that 33% of all UK Businesses have suffered a Cyber-attack in the 12 months up to March.</p> <p>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.</p> <p>A single consolidated Group Supplier Information Security Framework has been delivered which is improving the Security Oversight and Assurance of Phoenix's large portfolio of OSPs 3rd and 4th Party Suppliers. Further embedding and maturing over the next 12 months will help mitigate the risks associated with Supply Chain Cyber Security, which is recognised as one of Phoenix's key Cyber Security threats.</p> <p>Vulnerability Management continues to mature with the Enterprise Cyber Exposure Score (CES) continuing to drop and is now at 401, which is significant reduction from 700+ just over a year ago. This score is firmly within an Amber rating and is steadily approaching a targeted Green rating, which is a score below 350.</p>
<p>The Group fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy</p>	<p>Delivery of the Group's strategy is dependent on a talented, diverse and engaged workforce.</p> <p>This risk is inherent in the Group's business model given the nature of acquisition activity and specialist skill sets.</p> <p>Potential areas of uncertainty include: the ongoing transition of ReAssure businesses into the Group, the expanded strategic partnership with TCS and the introduction of the flexible working model.</p> <p>Potential periods of uncertainty could 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 the Group's strategy.</p> <p>This could ultimately impact the Group'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 that aim to provide clarity and support employee engagement for corporate activities, including details of key milestones to deliver against the Group's plans.</p> <p>In addition, the Group regularly benchmarks terms and conditions against the market and maintains succession plans for key individuals, ensuring successors bring appropriate diversity of thought, background and experience. Every six months, the Group's CEO and HR Director meet with the Executive Committee to discuss talent, succession and diversity.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>There has been no change to the overall level of exposure to this risk since it was introduced in the 2018 Annual Report and Accounts. This is driven by acknowledgement of the significant amount of integration activity within the Group and uncertainty regarding the longer-term social and marketplace impacts of the pandemic and cost-of-living crisis on colleague attrition and sickness, motivation and engagement. Skills essential to the Group continue to be in high-demand in the wider marketplace. The Group monitors this closely and continues to remain confident in the attractiveness of its colleague proposition.</p> <p>The Group continues to leverage apprenticeships to support workforce diversity and to fill key skills, creating bespoke graduate and early careers programmes for specialist technical areas.</p> <p>The Group continues to operate successfully 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 that meet individual, team and business needs.</p>

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
		<p>Monthly colleague surveys help to improve engagement whilst promoting continuous listening and rapid identification of concerns and actions.</p> <p>The Group continues actively to manage operational capacity required to deliver its 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 Group looks to respond proactively to external social, economic and marketplace events that impact colleagues.</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 and retain in the future. In addition, the Group's Graduate Programmes helps to support the talent pipeline.

MARKET RISK

Adverse investment market movements or broader economic forces can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer investments or sentiment

The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency, profitability and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers.

There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector specific sentiment, global pandemics and financial risks of climate change, including risks from the transition to a low carbon economy.

The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In particular, the Group's increase in exposure to residential property and private investments, as a result of its BPA investment strategy, is actively monitored.

The Group continues to implement de-risking strategies and control enhancements to mitigate unwanted customer and shareholder outcomes from certain market movements, such as equities, interest rates, inflation and foreign currencies.

The Group maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows.

The Group closely monitors and manages its excess capital position and it regularly discussed market outlook with its asset managers.

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This risk was assessed as 'Heightened' in the Group's 2019 Annual Report and Accounts and then again in 2020 due to ongoing economic uncertainty, geopolitical tensions, the impacts of COVID-19 and uncertainty around interest rates/ These remain the key drivers for the current assessment of exposure to this risk, which is unchanged from the 2020 position.

The global macro-economic environment remains highly uncertain, as it did throughout 2022, driven in part by the Ukraine conflict and rapid increase in inflation. 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. Inflation continues to be considered a material short to medium-term risk, with the UK Consumer Price Index remaining persistently high.

The Bank of England base rate has increased from 0.1% in December 2021 to 5.25%, with further rate rises expected during the remainder of 2023 and perhaps into 2024. Higher interest rates, coupled with cost-of-living rises, are beginning to suppress residential property prices. Interest rate rises are also expected to exacerbate the cost-of-living crisis as large numbers of fixed-term mortgages come from renewal over the next 12 months.

UK gilt yields remain high, rivalling the levels seen during the 2022 mini-budget market event. This is coupled with high swap rates, constraining liquidity in the long-term savings sector.

The Group 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 Group's strategy continues to involve hedging the major market risks and in 2022 the Group's Stress and Scenario Testing Programme continued to demonstrate the resilience of its balance sheet to market stresses. Contingency actions remain available to help manage the Group's capital and liquidity position in the event of unanticipated market movements such as those following the mini-budget.

As noted above, work is underway across the Group to ensure customers are supported as the impacts of the cost-of-living crisis continue to crystallise.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2022 Annual Report and Accounts
INSURANCE RISK				
<p>The Group may be exposed to adverse demographic experience which is out of line with expectations</p>	<p>The Group has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if annuity policyholders live for longer than expected, then the Group will need to pay their benefits for longer.</p> <p>The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.</p>	<p>The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions.</p> <p>The Group regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements.</p> <p>The Group continues to manage its longevity risk exposures, which includes the use of longevity swaps and reinsurance contracts to maintain this risk within appetite.</p> <p>The Group actively monitors persistency risk metrics and exposures against appetite across the business.</p> <p>Where required, the Group continues to take capital management actions to mitigate adverse demographic experience.</p>	<p>1</p> <p>2</p>	<p>This risk was assessed as 'Heightened' in the 2020 Annual Report and remains 'Heightened'. The assessment is driven by continued uncertainty around future demographic experience driven primarily by the long-term effects of COVID-19 on life expectancy, potential health risks from rising NHS waiting times; the rise in long-term sickness rates observed across the UK workforce; and health and customer behaviour implications from the cost of living crisis.</p> <p>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.</p> <p>The Group continues to monitor customer behaviour as a result of the cost of living crisis to ensure its impact on demographic assumptions is appropriately reflected in regular assumption reviews. As noted elsewhere in this section, work is underway to continue to ensure support is provided to customers as the impacts from the cost of living crisis continue to materialise.</p> <p>The Group has completed BPA transactions with a combined premium of £3.2 billion in the first six months of 2023. Consistent with previous transactions, the Group continues to reinsure the vast majority of the longevity risk with existing arrangements that are reviewed regularly.</p>
CREDIT RISK				
<p>The Group is exposed to the risk of downgrade or failure of a significant counterparty</p>	<p>The Group is exposed to the risk of downgrades and deterioration in the creditworthiness or default of investment, reinsurance, derivatives or banking counterparties. This could cause immediate financial loss, or a reduction in future profits.</p> <p>The Group is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations. This would negatively impact the Group's operations that may in turn have adverse effects on customer relationships and may lead to financial loss.</p>	<p>The Group regularly monitors its counterparty exposures and has specific limits in place relating to individual counterparties (with sub-limits for each credit risk exposure), sector concentration and geographies.</p> <p>The Group undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified using a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised.</p> <p>The Group regularly discusses market outlook with its asset managers in addition to the Line 2 Risk oversight provided.</p> <p>For mitigation of risks associated with stock-lending, additional protection is provided through collateral indemnity insurance.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>In the Group's 2020 Annual Report and Accounts this risk was assessed as 'Heightened' as a result of the market volatility and wider economic and social impacts arising from COVID-19. While the residual risks from COVID-19 have receded, the current assessment of the level of exposure to this risk is unchanged from the 2020 position, driven by ongoing geopolitical tensions, economic uncertainty and persistent high inflation.</p> <p>Over 2023 the Group continued to undertake actions to increase the overall credit quality of its portfolio and mitigate the impact on risk capital of future downgrades. This positive progress is balanced by risks arising from the Ukraine conflict and supply chain risks including the risk of deterioration in the relationship between the USA and China. Uncertainties over the global economic outlook and persistent high inflation present an increased risks of defaults and downgrades. However, a UK sovereign downgrade is now less probable than at the end of 2022, especially following Standard and Poor's revision of the outlook from 'negative' to 'stable' for the UK's credit rating in April 2023. This has a positive impact on UK-related assets including Gilts, Housing Associations and Local Authority Loans.</p> <p>Despite the failure of a number of US regional banks and a regulator-facilitated merger of Credit Suisse with UBS in early 2023, the Group's view is that a full-blown banking crisis will not follow. In addition, the Group has limited exposure to banks with idiosyncratic risks.</p> <p>The Group has no direct shareholder credit exposure to Russia or Ukraine and no exposure to sanctioned entities.</p> <p>The Group continues to increase investment in illiquid credit assets as a result of BPA transactions. This is within appetite and in line with the Group's strategic asset allocations plans. The growth in illiquid assets will be met by growth in the overall Group's credit portfolio.</p>

Emerging risks and opportunities

The Group's senior management and Board take emerging risks and opportunities into account when considering potential outcomes. This determines if appropriate management actions are in place to manage the risk or take advantage of the opportunity. Two examples of key risks and opportunities discussed by senior management and the Board during 2023 are:

Risk Title	Description	Risk Universe Category
Generative AI	<p>Generative Artificial Intelligence (AI) refers to deep-learning models that can generate high-quality text, images, and other content based on the data used to train them. Generative AI presents both a threat and opportunity, and the Group's priority is to establish pre-emptively the policy guardrails and controls that are essential to setting expectations on the safe use of Generative AI.</p> <p>The widespread use of Generative AI and its systemic vulnerabilities raise concerns that adversarial machine-learning could lead to risk / loss accumulation. For example, attackers could use adversarial machine learning to produce patterns that mislead machine-learning systems and are difficult for humans to notice. Fraudsters might target the machine learning systems used for product distribution and pricing, leading to unwanted shifts in risk exposure. Public reports of hacks / adversarial machine learning attacks could cause reputational damage. Currently issues exist when it comes to training the AI, as with Generative AI the data is not always current and tools may be drawing on sources that are months or years out of date impacting accuracy. . Limitations of Generative AI models, such as being unable to perform tasks that require reasoning, logical thinking and empathy could lead to unrealistic responses.</p> <p>However, Generative AI could spark a productivity boom that could eventually raise annual global GDP by 7% over 10 years (Goldman Sachs). This could result from future opportunities to provide automated customer service, help analyse large amounts of unstructured data to identify potential risks informing underwriting decisions, process large amounts of text data, help identify patterns and anomalies that may indicate fraudulent activity, generate customer communications, and enable multi-lingual customer service.</p>	Operational
Pension Pausers	<p>According to latest research from Canada Life, one in twenty UK adults (5%) say they have stopped contributing into their company pension due to the cost-of-living crisis. A further 6% say they are actively thinking about pausing their pension contributions, with the ending of more fixed rate mortgages increasing the pressure to do so. 19% of pension schemes surveyed by the PLSA have seen savers asking about reducing or stopping their pension contributions, with a 17% wanting early access to their pension after age 55. The survey also showed that almost half of pension schemes (45%) expect more savers might want to reduce pension contributions in the next six months and around one in three are also expecting members to want to have early access to their pension after age 55 (34%).</p> <p>In May 2023, the Group identified some small changes in customer behaviour including an increase in lapses in ReAssure, premium holiday requests and drawdown in Phoenix, and interactions across the support hub in Standard Life. The Group continues to signpost additional information and support to customers.</p> <p>As well as the easements the Group made to some products as the UK went into lockdown, the Group is also considering additional flexibility across its product range, such as:</p> <ul style="list-style-type: none"> • small annuity encashment which allows exchange of small annuities for a lump sum; • premium flexibility and deferral which will help customers to understand and utilise the flexible contractual features of their products, for example non-forfeiture, 'kept in force' periods or premium waiver; and <p>maintaining benefits through a contribution holiday, where some Contribution Protection and Death-in-Service Benefits remain when a payment holiday is taken.</p>	Customer

Financials

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Financials

Statement of Directors' responsibilities

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

- the condensed consolidated interim financial statements for the half year ended 30 June 2023, which have been prepared in accordance with UK adopted IAS 34 *Interim Financial Reporting*, give a fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings plc and its consolidated subsidiaries taken as whole;
- the Interim Report includes a fair view of the state of affairs of Phoenix Group Holdings plc and its consolidated subsidiaries as at 30 June 2023 and for the financial half year to which the Interim Report relates as required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings plc and its consolidated subsidiaries for the remaining six months of the year; and
- the Interim Report includes, as required by DTR 4.2.8R, a fair view of the information required on material transactions with related parties and any material changes in related party transactions described in the last Annual Report.

By order of the Board



Andy Briggs
Group Chief Executive Officer



Rakesh Thakrar
Group Chief Financial Officer

27 September 2023

Phoenix Group Holdings plc Board of Directors

Chair

Alastair Barbour

Executive Directors

Andy Briggs

Rakesh Thakrar

Non-Executive Directors

Karen Green

Mark Gregory

Hiroyuki Iioka

Katie Murray

John Pollock

Belinda Richards

David Scott

Margaret Semple

Nicholas Shott

Independent auditor's review report

To: Phoenix Group Holdings plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the condensed consolidated income statement, condensed statement of consolidated comprehensive income, condensed statement of consolidated financial position, condensed statement of consolidated changes in equity, condensed statement of consolidated cash flows and the notes to the condensed consolidated interim financial statements. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

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

Conclusions Relating to Going Concern

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

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

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

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

Auditor's responsibilities for the review of the financial information

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

Use of our report

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

Ernst & Young LLP

London

27 September 2023

Condensed consolidated income statement

For year the half year ended 30 June 2023

	Notes	Half year ended 30 June 2023 £m	Half year ended 30 June 2022 restated ¹ £m
Insurance revenue	6	2,902	2,615
Insurance service expenses		(2,640)	(2,709)
Insurance service result before reinsurance contracts		262	(94)
Net expenses from reinsurance contracts		(120)	(80)
Insurance service result		142	(174)
Fees and commissions		422	438
Net investment income		5,087	(31,602)
Other operating income		84	15
Gain on acquisition	3.1	66	-
Total income		5,801	(31,323)
Net finance (expense)/income from insurance contracts		(423)	16,114
Net finance expense from reinsurance contracts		(139)	(621)
Net insurance finance (expense)/income		(562)	15,493
Change in investment contract liabilities		(4,515)	14,304
Amortisation and impairment of acquired in-force business		(158)	(172)
Amortisation of other intangibles		(3)	(3)
Administrative expenses		(759)	(709)
Net (expense)/income attributable to unit holders		(42)	379
Loss before finance costs and tax		(238)	(2,031)
Finance costs		(134)	(116)
Loss for the period before tax		(372)	(2,147)
Tax (charge)/credit attributable to policyholders' returns	7	(65)	468
Loss before the tax attributable to owners		(437)	(1,679)
Tax credit	7	127	889
Add: tax attributable to policyholders' returns	7	65	(468)
Tax credit attributable to owners	7	192	421
Loss for the period attributable to owners		(245)	(1,258)
Attributable to:			
Owners of the parent		(261)	(1,289)
Non-controlling interests	12	16	31
		(245)	(1,258)
Earnings per ordinary share			
Basic (pence per share)	8	(27.1)p	(130.4)p
Diluted (pence per share)	8	(27.1)p	(130.4)p

¹Prior period comparatives have been restated on transition to IFRS 17 *Insurance Contracts* (see note 2 for further details).

Condensed statement of consolidated comprehensive income

For the half year ended 30 June 2023

	Notes	Half year ended 30 June 2023 £m	Half year ended 30 June 2022 restated ¹ £m
Loss for the period		(245)	(1,258)
Other comprehensive (expense)/income:			
Items that are or may be reclassified to profit or loss:			
Cash flow hedges:			
Fair value (losses)/gains arising during the period		(45)	130
Reclassification adjustments for amounts recognised in profit or loss		81	(158)
Exchange differences on translating foreign operations		17	(12)
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit asset/liability		39	648
Tax charge relating to other comprehensive income items	7	(21)	(155)
Total other comprehensive income for the period		71	453
Total comprehensive expense for the period		(174)	(805)
Attributable to:			
Owners of the parent		(190)	(836)
Non-controlling interests	12	16	31
		(174)	(805)

¹ Prior period comparatives have been restated on transition to IFRS 17 *Insurance Contracts* (see note 2 for further details).

Condensed statement of consolidated financial position

As at 30 June 2023

	Notes	30 June 2023 £m	31 December 2022 restated ¹ £m
Assets			
Pension scheme asset	13	28	14
Reimbursement Rights	13	203	205
Intangible assets			
Goodwill		10	10
Acquired in-force business		2,049	2,177
Other intangibles		109	112
		2,168	2,299
Property, plant and equipment		114	125
Investment property		3,904	3,727
Financial assets			
Loans and deposits		215	268
Derivatives		3,278	4,068
Equities		87,022	76,737
Investment in associate		273	329
Debt securities		85,794	83,116
Collective investment schemes		71,603	75,389
Reinsurers' share of investment contract liabilities		9,141	9,065
	16	257,326	248,972
Insurance assets			
Insurance contract assets	14	47	48
Reinsurance contract assets	14	4,059	4,071
		4,106	4,119
Deferred tax assets		145	158
Current tax		509	519
Prepayments and accrued income		547	403
Other receivables		4,856	4,455
Cash and cash equivalents		8,055	8,839
Assets classified as held for sale	3.2	6,830	7,205
Total assets		288,791	281,040

Condensed statement of consolidated financial position

For the half year ended 30 June 2023

	Notes	30 June 2023 £m	31 December 2022 restated ¹ £m
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	10	100	100
Share premium		14	10
Shares held by employee benefit trust		(12)	(13)
Foreign currency translation reserve		104	87
Merger relief reserve		1,819	1,819
Other reserves	11	82	46
Retained earnings		649	1,162
Total equity attributable to owners of the parent		2,756	3,211
Tier 1 Notes		494	494
Non-controlling interests	12	543	532
Total equity		3,793	4,237
Liabilities			
Pension scheme liability	13	2,464	2,520
Insurance liabilities			
Insurance contract liabilities	14	110,591	107,608
Reinsurance contract liabilities	14	-	7
		110,591	107,615
Financial liabilities			
Investment contracts		147,516	141,169
Borrowings	15	3,919	3,980
Derivatives		4,727	5,875
Net asset value attributable to unit holders		2,965	3,042
Obligations for repayment of collateral received		973	1,706
		160,100	155,772
Provisions		137	184
Deferred tax liabilities		102	309
Current tax		37	34
Lease liabilities		81	92
Accruals and deferred income		545	544
Other payables		3,073	1,373
Liabilities classified as held for sale	3.2	7,868	8,360
Total liabilities		284,998	276,803
Total equity and liabilities		288,791	281,040

¹ Prior period comparatives have been restated on transition to IFRS 17 *Insurance Contracts* (see note 2 for further details).

Condensed statement of consolidated changes in equity

For the half year ended 30 June 2023

	Share capital (note 10) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Merger relief reserve £m	Other reserves (note 11) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non-controlling interests (note 12) £m	Total equity £m
At 1 January 2023	100	10	(13)	87	1,819	46	1,162	3,211	494	532	4,237
(Loss)/profit for the period	-	-	-	-	-	-	(261)	(261)	-	16	(245)
Other comprehensive income for the period	-	-	-	17	-	36	18	71	-	-	71
Total comprehensive income/(expense) for the period	-	-	-	17	-	36	(243)	(190)	-	16	(174)
Issue of ordinary share capital, net of associated commissions and expenses	-	4	-	-	-	-	-	4	-	-	4
Dividends paid on ordinary shares	-	-	-	-	-	-	(260)	(260)	-	-	(260)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(5)	(5)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	10	10	-	-	10
Shares distributed by the employee benefit trust	-	-	9	-	-	-	(9)	-	-	-	-
Shares acquired by the employee benefit trust	-	-	(8)	-	-	-	-	(8)	-	-	(8)
Coupon paid on Tier 1 Notes, net of tax relief	-	-	-	-	-	-	(11)	(11)	-	-	(11)
At 30 June 2023	100	14	(12)	104	1,819	82	649	2,756	494	543	3,793

Condensed statement of consolidated changes in equity

For the half year ended 30 June 2022

	Share capital (note 11) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Merger relief reserve £m	Other reserves (note 11) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non- controlling interests (note 12) £m	Total equity £m
At 1 January 2022 (restated)	100	6	(12)	55	1,819	56	3,743	5,767	494	460	6,721
(Loss)/profit for the period	–	–	–	–	–	–	(1,289)	(1,289)	–	31	(1,258)
Other comprehensive (expense)/income for the period	–	–	–	(12)	–	(28)	493	453	–	–	453
Total comprehensive (expense)/income for the period	–	–	–	(12)	–	(28)	(796)	(836)	–	31	(805)
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	–	–	2	–	–	2
Dividends paid on ordinary shares	–	–	–	–	–	–	(248)	(248)	–	–	(248)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(5)	(5)
Credit to equity for equity-settled share- based payments	–	–	–	–	–	–	8	8	–	–	8
Shares distributed by the employee benefit trust	–	–	9	–	–	–	(9)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(10)	–	–	–	–	(10)	–	–	(10)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 30 June 2022 (restated)	100	8	(13)	43	1,819	28	2,686	4,671	494	486	5,651

¹ Prior period comparatives have been restated on transition to IFRS 17 *Insurance Contracts* (see note 2 for further details).

Condensed statement of consolidated cash flows

For the half year ended 30 June 2023

		Half year ended 30 June 2023	Half year ended 30 June 2022
	Notes	£m	£m
Cash flows from operating activities			
Cash (utilised)/generated by operations	17	(262)	2,128
Taxation paid		(47)	(138)
Net cash flows from operating activities		(309)	1,990
Cash flows from investing activities			
Acquisition of SLF of Canada UK Limited, net of cash acquired	3.1	(20)	–
Net cash flows from investing activities		(20)	–
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		4	2
Ordinary share dividends paid	9	(260)	(248)
Dividends paid to non-controlling interests	12	(5)	(5)
Repayment of policyholder borrowings		(22)	(23)
Repayment of lease liabilities		(6)	(7)
Proceeds from new policyholder borrowings, net of associated expenses		50	37
Coupon paid on Tier 1 Notes		(14)	(14)
Interest paid on policyholder borrowings		(1)	–
Interest paid on shareholder borrowings		(114)	(119)
Net cash flows from financing activities		(368)	(377)
Net (decrease)/increase in cash and cash equivalents		(697)	1,613
Cash and cash equivalents at the beginning of the period (before reclassification of cash and cash equivalents held for sale)		8,839	9,188
Less: cash and cash equivalents of operations classified as held for sale	3.2	(87)	(63)
Cash and cash equivalents at the end of the period		8,055	10,738

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

The condensed consolidated interim financial statements ('the interim financial statements') for the half year ended 30 June 2023 comprise the interim financial statements of Phoenix Group Holdings plc ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 31 to 85 and were authorised by the Board of Directors for issue on 27 September 2023.

These condensed consolidated interim financial statements are unaudited but have been reviewed by the Group's auditor, Ernst & Young LLP. The comparative results for the year ended 31 December 2022 and 30 June 2022 have been taken from the Group's 2022 Annual Report and Accounts and the 2022 Interim Financial Statements respectively, except for certain balances which have been restated but not audited following the implementation of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* (see notes 2.1 and 2.2). They should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2022 were delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

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

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

Assets and liabilities are offset and the net amount reported in the condensed statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the condensed consolidated income statement unless required or permitted by an International Financial Reporting Standard ('IFRS') or interpretation, as specifically disclosed in the accounting policies of the Group.

The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UK. The accounting policies applied in the interim financial statements are consistent with those set out in the 2022 consolidated financial statements, with the exception of the new accounting policies applied following the adoption of the new accounting standards effective in the period. In preparing the interim financial statements the Group has adopted the following standards and amendments effective from 1 January 2023 and which have been endorsed by the UK Endorsement Board ('UKEB'):

- IFRS 17 *Insurance Contracts*;
- IFRS 9 *Financial Instruments*;
- Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgments*);
- Definition of Accounting Estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*).

The nature and impact of the adoption of IFRS 17 and IFRS 9 are disclosed in note 2. The remaining amendments to standards are not considered to have a material effect on these interim financial statements.

In preparing the interim financial statements the Group has adopted International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12) with effect from 23 May 2023. The Group confirms that it has applied the exception set out in paragraph 4A in respect of recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Going concern

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

The Board performs a comprehensive assessment of whether the Group and the Company are a going concern and as part of this assessment the Board has considered financial projections over the period to 31 December 2024, which demonstrate the ability of the Group to withstand market shocks in a range of reasonably foreseeable stress scenarios. These stress scenarios include a recessionary economic stress scenario reflecting economic downturn affecting a number of risk exposures including additional credit downgrades, increasing interest rates and falling equity and property values. The projections demonstrate that appropriate levels of capital would remain in the Life Companies under both the base and reasonably foreseeable stress scenarios, thus supporting cash generation in the going concern period. In addition, the Board noted the Group's access to additional funding through its undrawn £1.75 billion Revolving Credit Facility. The stresses do not give rise to any material uncertainties over the Group's ability to continue as a going concern.

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

2. Adoption of new accounting standards during the period

The Group has applied the requirements of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* for the first time in the interim financial statements, including any consequential amendments to other standards. The nature and effects of the key changes in the Group's accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarised below.

The revised accounting policies applicable from 1 January 2023 are provided for IFRS 17 in note 2.1.3 and for IFRS 9 in note 2.2.4.

2.1 Adoption of IFRS 17 *Insurance Contracts*

The Group has adopted IFRS 17 effective from 1 January 2023 and comparative information for 2022 has been retrospectively restated. IFRS 17 replaces IFRS 4 *Insurance Contracts* and significantly changes the way the Group recognises, measures, presents and discloses its insurance contracts, investment contracts with discretionary participation features ('DPF') and reinsurance contracts held. It introduces a model that measures groups of contracts based on the present value of future cash flows with an explicit risk adjustment for non-financial risk and a contractual service margin ('CSM'), representing the unearned profit to be recognised in profit or loss over the coverage period.

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.

2.1.1 Transition approach

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a Full Retrospective Approach ('FRA') to the extent practicable and using a Fair Value Approach ('FVA') approach where the FRA was considered impracticable. The full retrospective approach requires the Group to:

- identify, recognise and measure each group of insurance and reinsurance contracts as if IFRS 17 had always applied;
- derecognise any existing balances that would not exist had IFRS 17 always applied; and
- recognise any resulting net difference in equity.

In determining whether it was practicable for the FRA transition method to be applied, the Group has considered the following key factors:

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

The FRA has been applied to the following insurance business on transition to IFRS 17:

- bulk purchase annuities;
- annuities and unit-linked policies that originated from 1 January 2021 onwards for the acquired Standard Life Assurance business entities;
- SunLife policies that originated post 1 January 2018; and
- ReAssure Assurance Limited annuities and non-profit policies from acquisition date of the ReAssure entities.

The FVA has been applied to the Group's remaining insurance business. On transition, 58% of the CSM (net of reinsurance) is calculated under the FRA and 42% under the FVA. However, of the business transitioned under FRA a significant amount of the CSM relates to the ReAssure business acquired in 2020 and fair valued at that date. Management therefore considers c.95% of the liabilities, equating to c.84% of the CSM, to be a more accurate reflection of the use of the FVA.

In applying the FVA, the CSM (or loss component) has been determined 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. In determining the fair value, the Group has applied the requirements of IFRS 13 *Fair Value Measurement*, except for the demand deposit floor requirement, as required by IFRS 17. The fair value determined by the Group uses cash flows with contract boundaries consistent with IFRS 17 requirements. The measurement of the fair value of contracts includes 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. Significant judgements and estimates used in determining the fair value have been set out in note 2.1.4.

The fair value for the groups of with-profit contracts, has been determined at transition date as the sum of the best estimate liability ('BEL'); the policyholders' share of the estate; a risk premium; and other fair value adjustments, i.e. profits on annuities vesting into the non-profit fund.

The treatment for reinsurance contracts held at transition is similar to that for insurance contracts with a few exceptions. Reinsurance BEL are calculated using the IFRS 17 discounted probability-weighted expected present value of the cash flows on transition date. The cash flows under the reinsurance contract are stressed in order to calculate the risk premium, plus an adjustment is made for risk of reinsurer default (i.e. additional risk of claims received being lower than the best estimate) in the risk premium.

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2.1.2 Impact of transition

Total equity attributable to owners of the parent

The Group has determined the quantitative impact of moving to IFRS 17 on 1 January 2022 to be a decrease in the total equity attributable to owners of the parent of £48 million, from £5,815 million to £5,767 million. The main drivers of this reduction are:

	£m
De-recognition of intangible assets related to contracts measured under IFRS 17	(2,030)
Remeasurement of insurance contract liabilities (net of reinsurance)	5,481
Recognition of a risk adjustment (net of reinsurance)	(1,061)
Recognition of a contractual service margin (net of reinsurance)	(2,430)
Changes in deferred tax from the above items	(8)
Change in total equity attributable to owners of the parent	(48)

On adoption of IFRS 17, the acquired in force business (‘AVIF’) and other intangibles associated with the acquisition of insurance contracts are no longer held as separate intangible assets and instead included implicitly in the measurement of insurance contract assets and liabilities.

The remeasurement of insurance contract liabilities primarily includes the following items:

- removal of IFRS 4 margins as IFRS 17 requires cash flows to be measured on a best estimate basis with the addition of an explicit adjustment for risk;
- inclusion of future shareholder profits from with-profit and unit-linked business that are not fully recognised under IFRS 4; and
- changes in the discount rate, most materially impacting annuity contracts.

Loss attributable to owners for the half year ended 30 June 2022

As a result of adopting IFRS 17, the loss after tax attributable to owners for the half year ended 30 June 2022 increased by £382 million from a loss of £876 million to a loss of £1,258 million.

	As previously reported £m	Restated £m	Change £m
Adjusted operating profit before tax	507	254	(253)
Economic variances	(1,076)	(1,540)	(464)
Amortisation and impairment of acquired in-force business	(248)	(172)	76
Amortisation and impairment of other intangibles	(10)	(3)	7
Other non-operating items	(280)	(146)	134
Finance costs attributable to owners	(103)	(103)	–
Loss before tax attributable to owners of the parent	(1,210)	(1,710)	(500)
Profit before tax attributable to non-controlling interest	31	31	–
Loss before tax attributable to owners	(1,179)	(1,679)	(500)
Tax credit attributable to owners	303	421	118
Loss after tax attributable to owners	(876)	(1,258)	(382)

Details of the adjusted operating profit methodology following the transition to IFRS 17 is set out in note 4.

The main drivers of this reduction are:

- the reduction in adjusted operating profit is driven by the change in profit recognition pattern, under IFRS 17 profits are spread over the life of contracts as service is provided. This includes the deferral of new business profits from annuity contracts written in the period;
- Economic variances have increased in relation to the Solvency II hedging in place. The interest rate sensitive liabilities reduce compared to IFRS 4 as the majority of the Group’s CSM uses locked-in discount rates resulting in a higher level of ‘over-hedging’. In addition, the offset to the losses primarily from interest rate hedging from gains arising on equity hedges in the previously reported numbers is reduced as under IFRS 17 these hedges now partially offset adverse market impacts arising in the income statement from unit-linked and with-profit business which have a loss component;
- a reduction in amortisation of acquired in-force business (‘AVIF’) as the element of AVIF associated with insurance contracts is derecognised on transition to IFRS 17; and
- Other non-operating items have reduced due to costs that have been assessed as directly attributable to insurance contracts being included in the calculation of the CSM.

2.1.3 New accounting policies

2.1.3.1 Classification

Contracts under which the Group accepts significant insurance risk are classified as insurance contracts. Contracts held by the Group under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts. Some contracts entered into by the Group have the legal form of insurance contracts but do not transfer significant insurance risk and expose the Group to financial risk. These contracts are classified as financial liabilities and are referred to as investment contracts.

All references in these accounting policies to insurance contracts and reinsurance contracts include contracts issued, initiated or acquired by the Group, unless otherwise stated.

Insurance contracts are classified as direct participating contracts or contracts without direct participation features. Direct participating contracts are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

All other insurance contracts and all reinsurance contracts are classified as contracts without direct participation features.

Some investment contracts issued by the Group contain discretionary participation features ("DPF"), whereby the investor has the right and is expected to receive, as a supplement to the amount not subject to the Group's discretion, potentially significant additional benefits based on the return of specified pools of investment assets. The Group accounts for these contracts under IFRS 17 consistent with insurance contracts.

The classification assessment is made at the date of inception or for business combinations or portfolio transfers, as at the date of acquisition. Once a contract is assessed as insurance, investment with DPF or reinsurance, the classification continues until the contract is derecognised or modified.

When considering classification, and applying the provisions of IFRS 17, the Group identifies a contract as the smallest unit of account. The Group also makes an evaluation of whether a series of contracts can be treated together in applying IFRS 17 based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts.

2.1.3.2 Accounting treatment

Separating components from insurance and reinsurance contracts

The Group assesses its insurance products to determine whether they contain components, which must be accounted for under accounting standards other than IFRS 17 (distinct non-insurance components).

Where an insurance contract has a distinct investment component and meets the separation criteria established under IFRS 17, the investment component is separated from the host contract and accounted for under IFRS 9. The assessment of whether a contract has a distinct investment component is carried out at inception of the contract, or the date of acquisition in the case of a business combination.

When assessing whether the investment component is distinct, the Group considers the following, which may indicate that the insurance and investment component are highly interrelated:

- the value of one component varies with the other component;
- existence of an option to switch between the different components;
- discounts that span both elements e.g. a reduced asset management charge based on total size of contract; and
- other interacting features e.g. insurance risk from premium waivers and return of premium covering both elements of the policy.

After separating any distinct components, the Group applies the requirements of IFRS 17 to all remaining components of the insurance contract or where distinct criteria are not met, the whole contract is accounted for within IFRS 17.

Level of aggregation

The Group is required to divide its business into groups for the purposes of recognition and measurement. The Group's business is firstly split into portfolios. Portfolios contain groups of contracts with similar risks, which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts that are profitable at initial recognition and have no significant risk of becoming onerous, and the remaining profitable contracts. For reinsurance contracts the same three groups would be identified with 'onerous' being replaced with 'net gain' and 'profitable' being replaced with 'net cost'. Contracts which are issued more than one year apart are not permitted to be included within the same group. However as permitted by IFRS 17, the groups of contracts for which the FVA has been adopted on transition include contracts issued more than one year apart.

The Group has defined portfolios of insurance and reinsurance contracts issued broadly based on the predominant risks inherent in the products/contracts, for example, longevity, persistency, mortality, and by considering whether groups of products are managed together. These portfolios are further split by legal entity, with-profit fund and contracts subject to different IFRS 17 measurement models are grouped separately. The portfolios are allocated to cohorts based on whether they are onerous at inception or based on their expected level of profitability using information available at inception.

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For reinsurance contracts held, portfolios are based upon similar risks to those of the underlying contracts. The reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Group tracks internal management information reflecting historical experience of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held being in a net cost position without a significant possibility of a net gain arising subsequently.

The grouping of the insurance contracts are determined at initial recognition and are not subsequently reassessed. Therefore, a contract will remain within the assigned aggregation group until it is derecognised; either by expiry or modification.

Recognition

The Group recognises groups of insurance contracts that it issues from the earliest of the following:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from the policyholder in the group is due or actually received if there is no due date; or
- for a group of onerous contracts, as soon as facts and circumstances indicate that the group is onerous.

Investment contracts with DPF are initially recognised at the date when the Group becomes a party to the contract.

Insurance contracts acquired in a business combination within the scope of IFRS 3 *Business combinations* or a portfolio transfer are accounted for as if they were entered into at the date of acquisition or transfer.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Reinsurance contracts held are recognised from the earliest of the following:

- the beginning of the coverage period of the group of reinsurance contracts held. However, the Group delays the recognition of a group of reinsurance contracts held that provide proportionate coverage (for example through a quota share arrangement) until the date when any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- the date the Group recognises an onerous group of underlying insurance contracts if the Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Group adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

Contract boundaries

The Group includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- the Group has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or
- both of the following criteria are satisfied:
 - the Group has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and
 - the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

Where an expected premium or expected claim is not within the contract boundary, it is not recognised as a cash flow of the contract and is instead considered to relate to a future insurance contract and recognised when those contracts meet the recognition criteria.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Group's substantive rights and obligations and, therefore, may change over time.

The contract boundary for a reinsurance contract is dependent on the terms and conditions of the reinsurance contract and therefore may not necessarily be the same as for the underlying contracts. Where the reinsurance contract is open to new business on agreed terms for a period of time, the contract boundary may include estimates of reinsurance on insurance contracts that have not yet been issued or reported.

Measurement

The Group's insurance contracts issued without direct participation features are grouped together under annuity, protection and other non-linked insurance business. These groups of insurance contract are measured under the General Model ('GM').

Direct participating contracts issued by the Group are contracts with DPF where the Group holds the pool of underlying assets. Direct participating insurance contracts are grouped together and reported primarily as either unit-linked or with-profit business. The VFA is also used to calculate some protection contracts with direct participation features. These groups of contracts are measured using the variable fee approach ('VFA'), unless they fail the eligibility test to be treated under this approach, in such circumstances they are measured under the GM.

Reinsurance contracts held are measured under the GM irrespective of the measurement model used for the underlying contracts. Certain with-profit funds within the Group hold non-profit insurance business such as annuities. This business will also be measured under the GM.

Initial measurement - Insurance contracts

On initial recognition, the Group measures a group of insurance contracts as the total of (a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and (b) the CSM. The fulfilment cash flows of a group of insurance contracts do not reflect the Group's non-performance risk.

The fulfilment cash flows comprise:

- unbiased and probability-weighted estimates of future cash flows that are within the contract boundary plus an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows ('BEL'); and
- a risk adjustment for non-financial risk.

The measurement of fulfilment cash flows includes insurance acquisition cash flows which are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract in a systematic and rational way based on the passage of time.

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The Group applies a confidence level technique. The risk adjustment is 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 to the extent that the Group includes it when determining the compensation required to bear that risk. The Group includes diversification between Group entities which use the Group Internal Model for management decision making. Where a Standard Formula approach is used, no diversification with other entities within the Group is allowed for. The Group determines the risk adjustment using a one-year time horizon, consistent with the time horizon used for Solvency II, a key metric underlying how the Group is managed.

The CSM of a group of insurance contracts represents the unearned profit that the Group will recognise over the life of the contract as insurance and investment-related services are provided. For profitable groups of insurance contracts the CSM is established to ensure that no profit or loss is recognised at inception and consequently it offsets the net present value of the expected cash flows (including initial premium and insurance acquisition cash flows) and the risk adjustment. For a group of insurance contracts that are onerous, the CSM is set to nil and a loss is immediately recognised in profit or loss. A loss component of the liability for remaining coverage ('LRC') is established for the amount of loss recognised.

The initial recognition of the CSM is consistent for insurance contracts applying the GM and VFA measurement approaches, however there are key differences for subsequent measurement of the CSM under these measurement models.

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date.

With-profit estate

The Group has a number of with-profit funds where surpluses are shared between policyholders and shareholders. All such funds are closed to new business. These funds typically have an 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 is expected to be distributed to existing policyholders over time and the Group has determined it appropriate to allocate the expected future policyholder payments from the estate to specific groups of contracts within the measurement of the best estimate cash flows.

Subsequent measurement - Insurance contracts

The carrying amount of a group of insurance contracts at each reporting date is the sum of the LRC and the liability for incurred claims ('LIC'). The LIC comprises the BEL, risk adjustment and any remaining CSM at that date. The LIC includes the BEL and risk adjustment (the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported). There is no CSM associated with the LIC, and as a result, any changes in the LIC are taken directly to profit or loss.

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows.

Changes relating to future services	Adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous)
Changes relating to current or past services	Recognised in the insurance service result in profit or loss

Where, during the coverage period, a group of insurance contracts becomes onerous, the Group recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Group for the liability for remaining coverage for such groups of onerous contracts representing the losses recognised.

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The CSM of each group of contracts is calculated at each reporting date as follows:

Insurance contracts measured under GM

For insurance contracts measured under the GM approach, the CSM is adjusted by applying locked-in discount rates, while the BEL and risk adjustment are adjusted using current discount rates.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- interest accreted on the carrying amount of the CSM during the year;
- changes in fulfilment cash flows that relate to future services, except to the extent that:
 - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised as a loss in profit or loss and creates a loss component; or
 - any decreases in the fulfilment cash flows are allocated to the loss component, reversing losses previously recognised in profit or loss;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the year (see the 'Insurance revenue' accounting policy below for further details).

Changes in fulfilment cash flows relating to future service that adjust the CSM comprise:

- experience adjustments arising from the difference between premiums received and the expected amounts estimated at the beginning of the period, that relate to future service, along with any associated acquisition costs;
- changes in estimates of the present value of future cash flows in the BEL and risk adjustment;
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable; and
- changes in the risk adjustment for non-financial risk that relate to future service.

Changes in discretionary cash flows are regarded as relating to future services and accordingly adjust the CSM.

The impact of discounting the risk adjustment for business measured under GM is disaggregated and recognised within Net finance income or expenses from insurance contracts within the income statement.

Insurance contracts measured under VFA model

The Group's unit-linked and with-profit business that meets the VFA eligibility criteria are direct participating contracts under which the Group's obligation to the policyholder is the net of:

- the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- a variable fee in exchange for future services provided by the contracts, being the amount of the Group's share of the fair value of the underlying items less fulfilment cash flows that do not vary based on the returns on underlying items. The Group provides investment services under these contracts by giving a return based on underlying items, in addition to insurance coverage.

For unit-linked and with-profit contracts that are measured under the VFA model, interest is not accreted on the CSM using a locked-in discount rate, instead it is determined with reference to the underlying items, reflecting that on these types of insurance contracts the Group fees for providing investment-related services are determined with reference to the value of the investments associated with the policyholder's policy. For example, annual management charges ('AMC') are determined by reference to the value of the policyholder's fund value and the shareholder's share of bonuses on a with-profit policy in a 90:10 fund is determined based on the performance of the with-profit fund.

The variable fee earned by the Group is consequently the Group's share of the fair value of underlying items less fulfilment cash flows that do not vary based on returns of the underlying items.

For unit-linked contracts the underlying items are funds that the unit price of the investment chosen by the policyholder varies with.

For with-profits contracts, the underlying items are typically the net assets of the relevant with-profit fund, including the estate and the fair value of non-profit contracts within the fund. With-profit funds can vary in their nature and operation therefore will be dependent on facts and circumstances.

When measuring a group of unit-linked and with-profit contracts using the VFA model, the Group adjusts the fulfilment cash flows for all of the changes in the obligation to pay policyholders, an amount equal to the fair value of the underlying items. These changes do not relate to future service and are recognised in profit or loss. The Group then adjusts the CSM for changes in the amount of the Group's share of the fair value of the underlying items, which relate to future services, as explained below.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- the change in the amount of the Group's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:
 - the Group has applied the risk mitigation option to exclude from the CSM changes in the effect of financial risk on the amount of its share of the underlying items or fulfilment cash flows;
 - a decrease in the amount of the Group's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM, giving rise to a loss in profit or loss (included in insurance service expenses) and creating a loss component; or
 - an increase in the amount of the Group's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future services, is allocated to the loss component, reversing losses previously recognised in profit or loss (included in insurance service expenses);
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the year (see the 'Insurance revenue' accounting policy below for further details).

Changes in fulfilment cash flows that relate to future service include the changes relating to future services specified above for contracts without direct participation features (measured at current discount rates) and changes in the effect of the time value of money and financial risks that do not arise from underlying items.

The Group does not currently apply the risk mitigation option to any material extent.

Loss components

A loss component represents a notional record of the losses attributable to each group of onerous insurance contracts. The loss component is released based on a systematic allocation of the subsequent changes relating to future service in the fulfilment cash flows to (i) the loss component; and (ii) the liability for remaining coverage excluding the loss component. The loss component is also updated for subsequent changes in estimates of the fulfilment cash flows and the risk adjustment relating to future service. The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of insurance contracts. The Group uses coverage units as the method of systematic allocation.

Reinsurance contracts held - measurement

The carrying amount of a group of reinsurance contracts at each reporting date is the sum of the asset/liability for remaining coverage and the asset/liability for incurred claims. The asset/liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The measurement of reinsurance contracts held at initial recognition follows the same principles as those for insurance contracts issued, with the exception of the following:

- measurement of the cash flows include an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral;
- the risk adjustment for non-financial risk is determined so that it represents the amount of risk being transferred to the reinsurer; and
- the Group recognises both day 1 gains and day 1 losses at initial recognition in the statement of consolidated financial position as CSM and releases this to profit or loss as the reinsurer renders services, except for any portion of a day 1 loss that relates to events before initial recognition. Where the Group recognises a loss on initial recognition of an onerous group of underlying contracts, it establishes a loss-recovery component of the asset for remaining coverage depicting the recovery of losses recognised.

To determine the risk adjustment for reinsurance contracts held, the Group will apply the approach set out above for insurance contracts both gross and net of reinsurance and determine the amount of risk being transferred to the reinsurer as the difference between the two results.

The loss-recovery component determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid. It is adjusted to reflect changes in the loss component of the onerous group of underlying contracts, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Group expects to recover from the reinsurance contracts.

The Group adjusts the CSM of the group to which a reinsurance contract belongs and as a result recognises income when it recognises a loss on initial recognition of onerous underlying contracts, if the reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Group expects to recover from the reinsurance contracts.

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The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued, with the exception of the following:

- changes in the fulfilment cash flows are recognised in profit or loss if the related changes arising from the underlying ceded contracts have been recognised in profit or loss. Alternatively, changes in the fulfilment cash flows adjust the CSM; and
- changes in the fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a reinsurance contract held do not adjust the CSM as they do not relate to future service. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

Modification and derecognition

The Group derecognises insurance and reinsurance contracts when:

- the rights and obligations relating to the contract are extinguished (i.e. discharged, cancelled or expired); or
- the contract is modified such that the modification results in a change in the measurement model, or the applicable standard for measuring a component of the contract. In such cases, the Group derecognises the initial contract and recognises the modified contract as a new contract.

Presentation

Insurance revenue

The Group's insurance revenue depicts the provision of services arising from a group of insurance contracts at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Insurance revenue from a group of insurance contracts is therefore the relevant portion for the period of the total consideration for the contracts, (i.e. the amount of premiums paid to the Group adjusted for financing effect (the time value of money) and excluding any investment components). The total consideration for a group of contracts covers amounts related to the provision of services and is comprised of:

- the release of the CSM;
- changes in the risk adjustment for non-financial risk relating to current services;
- claims and other insurance service expenses incurred in the period, generally measured at the amounts expected at the beginning of the period;
- experience adjustments arising from premiums received in the period other than those that relate to future service;
- insurance acquisition cash flows recovery which is determined by allocating the portion of premiums related to the recovery of those cash flows on the basis of the passage of time over the expected coverage of a group of contracts; and
- other amounts, including any other pre-recognition cash flow assets derecognised at the date of initial recognition.

The amount of the CSM of a group of insurance contracts that is recognised as insurance revenue in each year is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the year equally to each coverage unit provided in the year and expected to be provided in future years, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the year.

The number of coverage units in a group is the quantity of service provided by the contracts in the group, determined by considering for each contract the quantity of benefits provided under a contract and its expected coverage period. The coverage units are reviewed and updated at each reporting date.

The Group consider the following when determining coverage units:

- the quantity of benefits provided by contracts in the group;
- the expected coverage period of contracts in the group;
- the likelihood of insured events occurring, only to the extent that they affect the expected coverage period of contracts in the group;
- for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and
- for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).

The coverage units for groups of reinsurance contracts held is determined based on the quantity of coverage provided by the reinsurance contracts held in the group but not the coverage provided by the insurer to its policyholders through the underlying insurance contracts. However, where the reinsurance held is a 100% quota share arrangement, it is expected that the coverage units would be consistent with the underlying insurance contracts. Where there is a change to the fulfilment cash flows of the group of underlying policies that does not adjust the CSM, it also would not adjust the CSM of the group of reinsurance contracts.

Insurance service expense

Insurance service expenses arising from insurance contracts are recognised in profit or loss generally as they are incurred. They exclude repayments of investment components and comprise the following items:

- adjustment to liabilities for incurred claims and benefits, excluding investment components reduced by loss component allocations;
- other incurred directly attributable expenses, including amounts of any other pre-recognition cash flows assets (other than insurance acquisition cash flows) derecognised at the date of initial recognition;
- insurance acquisition cash flows amortisation;
- insurance acquisition cash flows assets impairment; and
- reversal of impairment of assets for insurance acquisition cash flows.

Net income or expense from reinsurance contracts held

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Group recognises an allocation of reinsurance premiums paid in profit or loss as it receives services under groups of reinsurance contracts. The allocation of reinsurance premiums paid relating to services received for each period represents the total of the changes in the asset for remaining coverage that relates to services for which the Group expects to pay consideration.

Insurance finance income or expenses

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance contracts arising from the effects of the time value of money, financial risk and changes therein, unless any such changes for groups of direct participating contracts are allocated to a loss component and included in insurance service expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items. The Group has chosen not to disaggregate insurance finance income or expenses between profit or loss and Other Comprehensive Income. Accordingly, all insurance finance income or expenses are presented within the profit or loss.

Interim financial reporting

The Group has elected not to change the treatment of accounting estimates made in previous interim financial statements. Therefore, its annual results are measured using a year-to-date approach and are not affected by the treatment of accounting estimates made in the interim financial statements issued during the financial year.

Notes to the condensed consolidated interim financial statements

2.1.4 Significant judgements and estimates

The Group applies significant judgement and estimation when determining the inputs, assumptions and techniques it uses to determine the BEL, CSM and risk adjustment at each reporting period to measure the insurance contract and reinsurance contract liabilities/assets. The main areas where significant judgement and estimation was required are:

Contract classification

Classification of contracts as insurance (or reinsurance) is based upon an assessment of the significance of insurance risk transferred to the Group. Insurance contracts are defined by IFRS 17 as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract.

Classification of contracts as investment with DPF is based upon an assessment of whether the discretionary amount of benefits is expected to be a significant amount of the total benefits.

Amortisation of the CSM

The Group applies judgements when determining the amount of the CSM for a group of insurance contracts to be recognised in profit or loss as insurance revenue in each period to reflect the insurance contract services provided in that period. The amount is determined by considering for each group of contracts the quantity of the benefits provided and its expected coverage period. Determining the coverage unit requires significant judgement, taking into consideration a number of areas, including:

- identification of a coverage unit that is deemed to be a suitable proxy for the service provided. This is particularly relevant for products that provide a combination of different types of insurance coverage, investment-related service and investment-return service; and
- the allowance for time value of money in the release of the coverage unit (i.e. whether or not the coverage units should be discounted).

Following an assessment, the Group has determined the quantity of the benefits provided under each contract to be a suitable proxy for the service provided as follows:

Type of business / products	Coverage unit (quantity of benefits)
Term life assurance	
Endowment	Sum assured in force
Non-participating whole-life	
Other protection products	
Immediate annuity	Annuity payments
Deferred annuity	Fund size during deferred period and annuity payments for the payment period
Unit linked	Annual management charge and insurance charges
Conventional with-profits (CWP) & Unitised with-profits (UWP)	Maximum of the guaranteed benefit and asset share

In relation to the application of discount rate in determining the coverage units, the Group has elected to apply discounting as this gives a more even allocation of profit as services are provided over the life of a group of contracts. The discount rate is the locked-in rate for insurance contracts measured under the GM and current rates are used for the contracts measured under the VFA.

Measurement of insurance contract liabilities

In applying IFRS 17 requirements for the measurement of insurance contract liabilities, the following inputs and methods were used that include significant estimates:

- the present value of future cash flows is estimated using deterministic scenarios, except where stochastic modelling involves projecting future cash flows under a large number of possible economic scenarios for market variables such as interest rates and equity returns and where the cash flows reflect a series of interrelated options that are implicit or explicit;
- the approach and assumptions used to derive discount rates, including any illiquid premiums (see note 14.1.1);
- the approach and confidence level for estimating risk adjustments for non-financial risk (see note 14.1.2); and
- the assumptions about future cash flows relating to mortality, morbidity, policyholder behaviour, and expense inflation.

In addition, the following are the primary additional areas of significant judgement and estimation required for the transition to IFRS 17:

Determination of transition method and its application

The Group exercised significant judgement in determining which transition method was applied for each group of insurance contracts, considering the impracticability assessment for the application of FRA, including determining whether sufficient reasonable and supportable information was available to apply a FRA. Where it was assessed that a FRA was impracticable, the Group determined, in line with the options available in IFRS 17, to use the FVA.

In applying the FVA, the Group has used reasonable and supportable information at the transition date in order to identify groups of insurance contracts and to determine whether any contracts are considered to be direct participating contracts, which meet the VFA eligibility criteria. For groups of contracts measured using the FVA, the Group has aggregated contracts issued more than one year apart.

In estimating the fair value, the Group has used significant judgement to determine adjustments required to reflect a market participant's view, and also to allocate fair value between groups of insurance contracts as follows:

- only relevant future cash flows within the boundaries of the insurance contracts were included in the fair value estimation;
- assumptions about BEL were adjusted and simplified by applying IFRS 17 parameters i.e. discount rate, expenses, contract boundary plus incorporating the risk premium to reflect the view of a market participant;
- discount rates were determined at the transition date, based on the risk-free rate with an allowance for illiquid premium taken into account;
- the risk premium was calibrated to a market participant view of an appropriate cost of capital rate; and
- a proportional approach was used to allocate the risk premium to each group of insurance contracts.

Eligibility assessment for use of VFA

The Group has issued unit-linked and with-profits contracts where the return on the underlying items is shared with policyholders. Underlying items comprise mainly specified portfolios of investment assets for unit-linked contracts and the net assets of a with-profit fund for with-profit policies that determine amounts payable to policyholders. The Group has exercised significant judgement to assess whether the amounts expected to be paid to the policyholder constitute a substantial share of the fair value returns on the underlying items. The policyholder's share of the fair value returns on underlying items includes amounts deducted to cover non-investment services, e.g. administration and risk charges. The fair value returns assumed on the underlying items also reflect the expected real world returns over the duration of the contract or group of insurance contracts being tested.

Determination of contract boundaries

The assessment of the contract boundary defines which future cash flows are included in the measurement of a contract. This requires judgement and consideration of the Group's substantive rights and obligations under the contract. The Group exercises significant judgement to determine the appropriate contract boundaries, taking into consideration a number of factors, including: features and terms and conditions of products; any implied substantive obligations and rights arising from the features of the product or policyholder needs it is meeting; pricing practices; and administrative practices.

Cash flows are within the boundaries of investment contracts with DPf if they result from a substantive obligation of the Group to deliver cash at a present or future date.

Separating distinct investment components from insurance and reinsurance contracts

When assessing whether an investment component is distinct, the Group considers the following, which may indicate that the insurance and investment component are highly interrelated:

- the value of one component varies with the other component;
- existence of an option to switch between the different components;
- discounts that span both elements e.g. reduced asset management charges based on total size of contract; and
- other interacting features, e.g. insurance risk from premium waivers, return of premium covering both elements of the policy.

Where the investment component is non-distinct, the whole contract is measured under IFRS 17. Distinct investment components are measured under IFRS 9.

Notes to the condensed consolidated interim financial statements

2.2 Adoption of IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. The Group elected, under the amendments to IFRS 4 to apply the temporary exemption from IFRS 9, to defer the initial application date of IFRS 9 to align with the initial application of IFRS 17. The Group has therefore adopted the requirements of IFRS 9 from 1 January 2023 and in accordance with the transition provisions in the standard, comparatives have not been restated.

IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, impairment methodology, and general hedge accounting rules and replaced the corresponding sections of IAS 39.

2.2.1 Classification and measurement of financial instruments

Financial assets

IFRS 9 requires all financial assets to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. As a result of adopting IFRS 9 on 1 January 2023, certain loans and deposits and cash and cash equivalents investment asset balances, previously classified as amortised cost, have now been reclassified at fair value through profit or loss ('FVTPL') (mandatory) category. The classification adopted is driven by the business model assessment which determined that these assets are managed and evaluated on a fair value basis. These financial assets, which back policyholder liabilities, are actively managed and therefore support the wider objective of the Group to maximise Solvency II headroom. The reclassification of these assets has not resulted in an adjustment to equity at 1 January 2023 as the fair value of these assets at this date was equal to the amortised cost.

Under IAS 39, certain underlying items of participating contracts were designated as at FVTPL because the Group managed them and evaluated their performance on a fair value basis in accordance with a documented investment strategy. Under IFRS 9, portfolios of these assets are mandatorily measured at FVTPL as the business model assessment concludes that they are managed and evaluated on a fair value basis and consequently the classification as FVTPL remains unchanged upon adoption of IFRS 9.

All other financial assets that are not actively managed such as certain cash and cash equivalents, receivables and loans and deposits, are typically held to collect cash flows and therefore continue to be classified as amortised cost under IFRS 9.

The Group has not elected to measure any equity securities financial assets at fair value through other comprehensive income ('FVOCI'). Further, no other debt securities financial assets are classified as FVOCI on adoption of IFRS 9.

Financial liabilities

IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities as the classification and measurement of financial liabilities remains largely unchanged from IAS 39. Financial liabilities are either classified as amortised cost or at FVTPL.

Investment contracts without DPF, which do not transfer significant insurance risk, continue to be accounted for as a financial liability and designated at FVTPL on the basis that these liabilities are both managed on a fair value basis and are designated as such so as to avoid an accounting mismatch with the assets held to back them.

On transition to IFRS 17 and IFRS 9, deposits from reinsurers are no longer classified as financial liabilities under IFRS 9 in accordance with the IFRS 17 requirements for 'premium withheld' arrangements. The premiums withheld have now become a component of fulfilment cash flows and for contracts with deposit back arrangements, the presentation of the deposit back liability has now changed to be shown as an offset to the reinsurance asset.

The Group has assessed the IFRS 9 requirement that changes in fair value of financial liabilities relating to credit risk be presented in OCI, with the balance of the change in fair value to be presented in profit and loss, unless this treatment would create or enlarge an accounting mismatch in profit and loss. Based on the Group assessment, no financial liabilities were identified as requiring split presentation of movements between OCI and profit and loss largely as this would create an accounting mismatch as the assets held to back these liabilities are at FVTPL.

The valuation of investment contract liabilities without DPF are measured at the fair value of the related assets and liabilities. The liability is the sum of the investment contract liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

The application of the classification and measurement requirements in IFRS 9 at 1 January 2023 resulted in the following reclassification adjustments:

£m	IAS 39		IFRS 9	
	Measurement category	Carrying amount £m	Measurement category	Carrying amount £m
Financial assets				
Loans and deposits ¹	Amortised Cost	254	FVTPL	254
Cash and cash equivalent ¹	Amortised Cost	8,423	FVTPL	8,423

¹ Actively managed investment assets

2.2.2 Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets held at amortised cost by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ('ECL') approach. The new impairment model applies to the Group's financial assets carried at amortised cost.

A significant portion of Group's financial assets are carried at FVTPL under IFRS 9 and are therefore not subject to ECL assessment. The other financial assets classified as amortised cost and subject to ECL mainly relate to certain loan assets, other receivables and certain cash and cash equivalents balances.

In accordance with IFRS 9, the Group has applied the ECL model to financial assets measured at amortised cost. For these in-scope financial assets at the reporting date either the lifetime expected credit loss or a 12-month expected credit loss is provided for, depending on the Group's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition. The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The financial assets held at amortised cost are assessed at transition as 'performing' and this assessment is summarised below.

Loans and deposits – the Group has assessed the estimated credit losses of these loans and deposits as low due to the external credit ratings of the counterparties resulting in low credit risk and there being no past-due amounts.

Other receivables – these balances relate to investment broker balances and other regular receivables due to the Group in the normal course of business. Expected credit losses are assessed as being immaterial given the typically short-term nature of these balances.

Cash and cash equivalents – the Group's cash and cash equivalents are held with banks and financial institutions, which have investment grade 'A' credit ratings. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and, there being no history of default. The impact to the net carrying amount stated in the table above is therefore considered not to be material.

Based on the above assessment, an immaterial credit loss balance has been determined due to these financial assets being predominantly short-term and having low credit risk.

2.2.3 Hedge accounting

The Group has applied IFRS 9's hedge accounting requirements. The Group uses cross currency swaps to hedge the currency risk arising from borrowings denominated in foreign currencies. The Group has carried over the current hedging relationships as cash flow hedges under IFRS 9. The IFRS 9 hedge accounting model requires the extended documentation of each hedging relationship. The Group has updated the existing hedging documentation to reflect the changes to the effectiveness testing process to include qualitative testing on a prospective basis including the analysis of economic relationship between the hedged item and hedging instrument, analysis of source of hedge ineffectiveness, determining the hedge ratio and assessment of whether the effect of credit risk dominates the value changes that result from the economic relationship. The current hedging relationships are straightforward arrangements whereby the cross currency swaps fully hedge the underlying hedged item and they are all fully collateralised.

Notes to the condensed consolidated interim financial statements

2.2.4 New accounting policies

2.2.4.1 Financial assets

IFRS 9 requires financial assets to be classified into one of the following measurement categories: FVTPL, FVOCI and amortised cost. Classification is made based on the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments.

Financial assets are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. Subsequent to initial recognition, these financial assets are carried at amortised cost, using the effective interest method.

Equities, debt securities, collective investment schemes, derivatives and certain loans and deposits and cash and cash equivalents are measured at FVTPL as they are managed and evaluated on a fair value basis.

2.2.4.2 Financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost, except for derivatives and investment contracts without DPF, which are measured at FVTPL. There have been no changes to the accounting policies presented in the 2022 consolidated financial statements.

2.2.4.3 Impairment of financial assets

The Group assesses the expected credit losses associated with its loans and deposits, receivables, cash and cash equivalents and other financial assets carried at amortised cost. The measurement of credit impairment is based on an ECL model and depends upon whether there has been a significant increase in credit risk.

For those credit exposures for which credit risk has not increased significantly since initial recognition, the Group measures loss allowances at an amount equal to the total expected credit losses resulting from default events that are possible within 12 months after the reporting date ('12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the Group measures and recognises an allowance at an amount equal to the expected credit losses over the remaining life of the exposure, irrespective of the timing of the default ('Lifetime ECL'). If the financial asset becomes 'credit-impaired' (following significant financial difficulty of issuer/borrower, or a default/breach of a covenant), the Group will recognise a Lifetime ECL. ECLs are derived from unbiased and probability-weighted estimates of expected loss.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs and subsequent remeasurements of the ECL, are recognised in the consolidated income statement. For other receivables, the ECL rate is recalculated each reporting period with reference to the counterparties of each balance.

2.2.5 Critical accounting estimates and judgements

The critical estimates and judgements in relation to financial instruments are as set out in note A.3.2 of the Group's 2022 annual Report and Accounts.

Details of the significant inputs to the measurement of the fair value of Level 3 financial instruments is set out in note 16.2.3 and sensitivities to these inputs in note 16.2.5.

3. Significant transactions

3.1 Acquisition of SLF Canada UK Limited

On 3 April 2023, the Group acquired 100% of the issued share capital of SLF of Canada UK Limited from Sun Life Assurance Company of Canada, part of the Sun Life Financial Inc. Group, for total cash consideration of £250 million.

SLF of Canada UK Limited and its subsidiaries are a closed book life insurance business that has a portfolio of pension, life and annuity products.

The acquisition is in line with the Group's strategy to undertake mergers and acquisitions ('M&A') to acquire new customers at scale and deliver better outcomes for them. The Group also transforms acquired businesses to deliver significant cost and capital synergies, creating significant shareholder value.

The table below summarises the fair value of identifiable assets and acquired and liabilities assumed as at the date of acquisition.

	Notes	Fair value £m
Assets		
Acquired in-force business		16
Pension scheme asset	13	16
Reimbursement rights	13	2
Investment property		283
Financial assets		7,552
Deferred tax assets		13
Prepayments and accrued income		46
Other receivables		64
Cash and cash equivalents		230
Total assets		8,222
Liabilities		
Insurance contract liabilities	14	4,386
Reinsurance contract liabilities	14	153
Investment contract liabilities		3,190
Other financial liabilities		75
Provisions		5
Deferred tax liabilities		3
Payables related to direct insurance contracts		26
Current tax		4
Other payables		64
Total liabilities		7,906
Fair value of net assets acquired		316
Gain arising on acquisition		(66)
Purchase consideration transferred		250
Analysis of cash flows on acquisition:		
Net cash acquired with the subsidiaries (included in cash flow from investing activities)		230
Cash paid		(250)
Net cash flow on acquisition		(20)

Notes to the condensed consolidated interim financial statements

Acquired In-Force Business

An asset of £16 million arises reflecting the present value of future profits associated with the acquired in-force business. The AVIF has been determined by reference to the fair value of investment contract rights acquired.

The valuation of AVIF has been determined by reference to the assumptions expected to be applied by a market participant in an orderly transaction. The valuation approach uses present value techniques applied to the best estimate cash flows expected to arise from policies that were in-force at the acquisition date, adjusted to reflect the price of bearing the uncertainty inherent in those cash flows. This approach incorporates a number of judgements and assumptions which have impacted on the resultant valuation, the most significant of which include expected policy lapses and surrender costs, and the expenses associated with servicing the policies, together with economic assumptions such as future investment returns and the discount rate. The determination of the majority of these assumptions is carried out on a consistent basis with that described in note 14.1 with appropriate adjustments to reflect a market participant's view. The adjustment for risk for the uncertainty in the cash flows has been determined using a cost of capital approach.

The valuation of insurance contract liabilities and associated reinsurance assets has been carried out on a consistent basis with that applied by the Group under the Fair Value Approach on the transition to IFRS 17. Further information on the Fair Value Approach is set out in note 2.1.1.

Deferred acquisition costs of £1 million and a deferred income liability of £2 million have been derecognised on acquisition and replaced as part of the AVIF balance.

Other receivables

The financial assets acquired include other receivables with a fair value of £64 million. The gross amount due under the contracts is £64 million, of which no balances are expected to be uncollectable.

Tax

The tax impact of the fair value adjustments recognised on acquisition has been reflected in the acquisition balance sheet.

Gain on acquisition

A gain on acquisition of £66 million has been recognised in the Group's consolidated income statement for the half year ended 30 June 2023, reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the SLF of Canada UK businesses.

The consideration for the acquisition was fixed and determined using a 'locked box' pricing mechanism as at 31 December 2021. Over the period between 31 December 2021 and the completion date, the value of the net assets acquired increased. This principally reflects a negative impact on assets from increasing yields being more than offset by a reduction in liabilities as a result of favourable assumption changes and demographic experience.

Additionally, in accordance with IFRS 3 *Business Combinations*, the acquired defined benefit pension schemes have been measured on acquisition in accordance with the Group's accounting policies as set out in note G1 of the 2022 Annual Report and Accounts, as opposed to a fair value basis.

Transaction costs

Transaction costs of £4 million have been expensed and are included in administrative expenses in the consolidated income statement. All of these costs were paid.

Impact of the acquisition on results

From the date of acquisition, the SLF of Canada UK business contributed £12 million of total income, and negative £5 million of profit after tax attributable to owners.

It is not possible to provide the total income and profit after tax attributable to owners had the acquisition taken place at the beginning of the year as key income statement items such as the amortisation of the contractual service margin recognised under IFRS 17 are calculated with reference to the fair value as at the date of acquisition.

3.2 Agreement with abrdrn plc

On 23 February 2021, the Group entered into a new agreement with abrdrn plc to simplify the arrangements of their Strategic Partnership, enabling the Group to control its own distribution, marketing and brands, and focusing the Strategic Partnership on using abrdrn plc's asset management services in support of Phoenix's growth strategy. Under the terms of the transaction, the Group agreed to sell its UK investment and platform-related products, comprising Wrap Self Invested Personal Pension ('Wrap SIPP'), Onshore Bond and UK Trustee Investment Plan ('TIP') to abrdrn plc through a Part VII transfer. The economic risk and rewards for this business transferred to abrdrn plc effective from 1 January 2021 via a profit transfer arrangement. Consideration received of £62 million in respect of this business has been deferred until completion of the Part VII and the payments to abrdrn plc in respect of the profit transfer arrangement are being offset against the deferred consideration balance.

The balances in the condensed statement of consolidated financial position relating to the Wrap SIPP, Onshore Bond and TIP business have been classified as a disposal group held for sale. The total proceeds of disposal are not expected to exceed the carrying value of the related net assets and accordingly the disposal group has been measured at fair value less costs to sell. At the date of the transaction an impairment loss of £59 million was recognised upon classification of the business as held for sale in respect of the acquired in-force business ('AVIF'). A further impairment charge of £14 million has been recognised in the period (year ended 31 December 2022: £17 million). The major classes of assets and liabilities classified as held for sale are as follows:

	30 June 2023	31 December 2022
	£m	£m
Acquired in-force business	23	37
Investment property	2,357	2,506
Financial assets	4,363	4,629
Cash and cash equivalents	87	33
Assets classified as held for sale	6,830	7,205
Assets in consolidated funds ¹	1,035	1,147
Total assets of the disposal group	7,865	8,352
Investment contract liabilities	(7,838)	(8,312)
Other financial liabilities	(3)	(4)
Deferred tax liabilities	(4)	(7)
Accruals and deferred income	(23)	(37)
Liabilities classified as held for sale	(7,868)	(8,360)

1. Included in assets of the disposal group are assets in consolidated funds, which are held to back investment contract liabilities of the Wrap SIPP, Onshore bond and TIP business and are disclosed within financial assets in the condensed consolidated statement of financial position. The Group controls these funds at each reporting date and therefore consolidates 100% of the assets with any non-controlling interest recognised as net asset value attributable to unit holders.

4. Segmental analysis

The Group defines and presents operating segments in accordance with IFRS 8 *Operating Segments* which requires such segments to be based on the information which is provided to the Board, and therefore segmental information in this note is presented on a different basis from profit or loss across the interim financial statements.

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

For management purposes, the Group is organised into business units based on their products and services. During the period, the Group reassessed its reportable segments to reflect the way the Group's business is managed. At 30 June 2023, the Group has two reportable segments comprising Heritage and Open. The Europe reportable segment is now included in the Open reportable segment as this business primarily includes products that are actively being marketed to new policyholders. In addition, Management Services costs are now allocated to the Heritage and Open reportable segments. The comparative information has been restated to reflect these changes and those arising from the implementation of IFRS 17. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment.

The Open segment includes new and in-force individual annuity and Bulk Purchase Annuity contracts written within shareholders funds, with the exception of individual annuities written as a result of Guaranteed Annuity Options vesting after the transition to IFRS 17, which remain in the Heritage segment as they fall within the contract boundary of the original savings or pension contract.

This segment also includes new and in-force life insurance and investment unit-linked policies in respect of pensions and savings products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and our retail pensions and savings business.

Business written in Ireland and Germany primarily includes products that are actively being marketed to new policyholders and is consequently included within the Open segment. This segment also includes products sold under the SunLife brand.

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The Heritage segment includes all businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies. The Heritage segment also includes the Sun Life of Canada UK business acquired during the year.

The Corporate Centre segment, which is not a reportable segment, principally comprises operating costs borne by the Group's management services and corporate holding companies that do not relate to the insurance business of the Group. It also includes Group financing (including finance costs) which are managed on a Group basis and are not allocated to individual operating segments.

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

Segmental measure of performance: Adjusted operating profit

The Group uses a non-GAAP measure of performance, being adjusted operating profit, to evaluate segmental performance. 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.

The Group's adjusted operating profit methodology has been updated since it was disclosed in the 2022 consolidated financial statements following the transition to IFRS 17 'Insurance Contracts'.

The following sets out the adjusted operating profit methodology:

For unit-linked business accounted for under IFRS 9, adjusted operating profit reflects the fees collected from customers less operating expenses including overheads.

For unit-linked and with-profit business accounted for under IFRS 17, adjusted operating profit reflects the release of the risk adjustment, amortisation of CSM, and demographic experience variances in the period.

For shareholder annuity, other non-profit business and with-profit funds receiving shareholder support accounted for under IFRS 17, adjusted operating profit includes the release of the risk adjustment, amortisation of CSM, and demographic experience variances in the period. Adjusted operating profit also incorporates an expected return on the financial investments backing this business and any surplus assets, with allowance for the corresponding movement in liabilities.

Adjusted operating profit excludes the above items for non-profit business written in a with-profit fund where these amounts do not accrue directly to the shareholder.

Adjusted operating profit includes the effect of experience variances relating to the current period for non-economic items, such as mortality and expenses. It also incorporates the impacts of asset trading and portfolio rebalancing where not reflected in the discount rate used in calculating expected return.

Operating profit is reported net of policyholder finance charges and policyholder tax.

Adjusted operating excludes the impacts of the following items:

Economic variances

- the difference between actual and expected experience for economic items recognised in the income statement, impacts of economic assumptions on the valuation of liabilities measured under the General Model and the change in value of loss components on Variable Fee Approach business resulting from market movements on underlying items;
- economic volatility arising from the Group's hedging strategy which is calibrated to protect the Solvency II capital position and cash generation capability of the operating companies;
- the accounting mismatch resulting from the application of IFRS 17 between the measurement of non-profit business in a with-profit fund (noted above) and the change in fair value of this business included within the measurement of the with-profit contracts under the Variable Fee Approach; and
- the effect of the mismatch between changes in estimates of future cash flows on General Model contracts measured at current discount rates and the corresponding adjustment to the CSM measured at the discount rate locked-in at inception.

Other

- amortisation and impairment of intangible assets (net of policyholder tax);
- finance costs attributable to owners;
- gains or losses on the acquisition or disposal of subsidiaries (net of related costs);
- the financial impacts of mandatory regulatory change;
- the profit or loss attributable to non-controlling interests;
- integration, restructuring or other significant one-off projects impacting the income statement; and
- any other items which, in the Director's view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

The items excluded from adjusted operating profit are referred to as 'non-operating items'. Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of adjusted operating profit provides a good indicator of the underlying performance of the Group's operating segments and the Group uses this, as part of a suite of measures, for decision-making and monitoring performance. The Group's adjusted operating profit should be read in conjunction with the IFRS profit before tax.

4.1 Segmental result

	Half year ended 30 June 2023	Half year ended 30 June 2022 restated
	£m	£m
Operating profit		
Heritage	117	114
Open	182	171
Corporate Centre	(33)	(31)
Total segmental operating profit	266	254
Economic variances	(253)	(1,540)
Amortisation of acquired in-force business	(158)	(172)
Amortisation and impairment of other intangibles	(3)	(3)
Other non-operating items	(206)	(146)
Finance costs attributable to owners	(99)	(103)
Loss before the tax attributable to owners of the parent	(453)	(1,710)
Profit before tax attributable to non-controlling interests	16	31
Loss before the tax attributable to owners	(437)	(1,679)

Other non-operating items in respect of the half year ended 30 June 2023 include:

- a gain on acquisition of £66 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of SLF of Canada UK Limited (see note 3.1 for further details);
- a £52 million adverse impact associated with the Part VII transfer of certain European business from the Group's UK Life Companies to a newly established European subsidiary;
- £49 million of costs associated with the development of new product propositions and strategic growth initiatives;
- costs of £38 million associated with ongoing integration and finance transformation projects;
- ongoing costs of £25 million associated with the consolidation of four Life Companies into a single entity, with the Part VII transfers expected to complete in Q4 2023;
- £17 million costs associated with the delivery of the Group Target Operating Model for IT and Operations, including the migration of policyholder administration onto the TCS platform. Under IFRS 17, the majority of the expected costs in respect of this project are attributable to insurance contracts and have therefore been included within insurance contract liabilities;
- £12 million of past service costs in relation to a Group pension scheme (see note 13 for further details);
- £10 million of costs associated with regulatory and optimisation activity, representing a one-time expenditure;
- £52 million of other corporate project costs; and
- net other one-off items totalling a cost of £17 million.

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

- £17 million related to the increase in expected costs associated with the delivery of the Group Target Operating Model for IT and Operations, including the migration of policyholder administration onto the TCS platform;
- costs of £20 million associated with the ongoing ReAssure integration programme;
- £10 million of costs associated with a strategic initiative to enhance capabilities in relation to regulatory approvals which will support the move towards the Group's strategic asset allocation alongside growth delivered through bulk purchase annuity transactions;
- £11 million of costs associated with finance transformation activities, predominantly attributed to integration of acquired companies;
- £20 million of costs associated with regulatory activity across the life companies, representing a one-time expenditure;
- £48 million of other corporate project costs; and
- net other one-off items totalling a cost of £20 million.

Further details of the economic variances funds are included in note 5.

Notes to the condensed consolidated interim financial statements

4.2 Segmental revenue

Half year ended 30 June 2023	Heritage £m	Open £m	Total £m
Revenue from external customers:			
Insurance revenue	813	2,089	2,902
Fees and commissions	255	167	422
Total segmental revenue	1,068	2,256	3,324

Of the revenue from external customers presented in the table above for the half year ended 30 June 2023, £3,110 million is attributable to customers in the United Kingdom ('UK') and £214 million to the rest of the world. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) as at 30 June 2023 of £3,816 million located in the UK and £321 million located in the rest of the world.

Half year ended 30 June 2022 restated	Heritage £m	Open £m	Total £m
Revenue from external customers:			
Insurance revenue	730	1,885	2,615
Fees and commissions	279	159	438
Total segmental revenue	1,009	2,044	3,053

Of the revenue from external customers presented in the table above for the half year ended 30 June 2022, £2,943 million is attributable to customers in the United Kingdom ('UK') and £110 million to the rest of the world. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) as at 30 June 2022 of £4,915 million located in the UK and £418 million located in the rest of the world.

5. Economic Variances

The long-term nature of much of the Group's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. The methodology for the determination of the expected investment return is explained below together with an analysis of investment return variances and economic assumption changes recognised outside of operating profit.

5.1 Calculation of the long-term investment return

Adjusted operating profit for life assurance business is based on expected investment returns on financial investments backing shareholder annuity, other non-profit business, with-profit funds receiving shareholder support and surplus assets, with allowance for the corresponding movements in liabilities.

The long-term risk-free rate used as a basis for deriving the long-term investment return is consistent with that set out in note 14.1.1 at the 15-year duration.

A risk premium of 250bps is added to the risk-free yield for equities (30 June 2022: 370bps), 160 bps for properties (30 June 2022: 280bps) and 140bps for debt securities (30 June 2022: 100bps). The principal assumptions underlying the calculation of the long-term investment return are:

	Half year ended 30 June 2023	Half year ended 30 June 2022
	%	%
Equities	6.1	4.6
Property	5.2	3.7
Debt Securities	5.1	2.0

5.2 Life assurance business

The economic variances excluded from the long-term business operating profit are as follows:

	Half year ended 30 June 2023	Half year ended 30 June 2022
	£m	£m
Economic variances	(253)	(1,540)

The net adverse economic variances of £253 million (half year ended 30 June 2022: £1,540 million) have primarily arisen as a result of rising yields and a rise in global equity markets, offset by rising inflation, narrowing credit spreads and strengthening of GBP. Movements in yields, inflation, currency and equity markets are hedged to protect our Solvency II surplus from volatility, but our IFRS balance sheet is, in effect, 'over-hedged' as it does not recognise the additional Solvency II balance sheet items such as future profits on investment contracts measured under IFRS 9 and the Solvency Capital Requirements. While this gives rise to volatility in the IFRS results, importantly the Group's cash generation and dividend capacity are unaffected by this due to the Group's continued resilient Solvency II balance sheet.

6. Insurance revenue

An analysis of insurance revenue from group of insurance contracts held are included in the following tables. Additional information on amounts recognised in profit or loss is included in the insurance contract balances reconciliation in note 14.

	Half year ended 30 June 2023	Half year ended 30 June 2022
	£m	£m
Amounts relating to changes in liabilities for remaining coverage:		
CSM recognised in period for services provided	208	195
Change in risk adjustment for non-financial risk	45	70
Expected incurred claims and other insurance service expenses	2,633	2,367
Policyholder tax charges	12	(17)
Experience adjustments for premium receipts relating to past or present service	–	(7)
Amounts relating to recovery of insurance acquisition cash flows	4	7
Insurance revenue	2,902	2,615

Notes to the condensed consolidated interim financial statements

7. Tax (credit)/charge

7.1 Current period tax credit

Income tax comprises current and deferred tax. Income tax is recognised in the condensed consolidated income statement except to the extent that it relates to items recognised in the condensed statement of consolidated comprehensive income or the condensed statement of consolidated changes in equity, in which case it is recognised in these statements. Current tax is the expected tax payable on the taxable income for the period, using tax rates and laws enacted or substantively enacted at the date of the condensed statement of consolidated financial position together with adjustments to tax payable in respect of previous periods. The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the period.

	Half year ended 30 June 2023	Half year ended 30 June 2022 restated
	£m	£m
Current tax:		
UK corporation tax	(2)	14
Overseas tax	62	48
	60	62
Adjustment in respect of prior periods	7	5
Total current tax charge	67	67
Deferred tax:		
Origination and reversal of temporary differences	(193)	(855)
Change in the rate of UK corporation tax	(1)	(111)
Write up of deferred tax assets	–	10
Total deferred tax credit	(194)	(956)
Total tax credit	(127)	(889)
Attributable to:		
– policyholders	65	(468)
– owners	(192)	(421)
Total tax credit	(127)	(889)

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each period. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings is £65 million (half year ended 30 June 2022: £468 million credit).

7.2 Tax charged to other comprehensive income

	Half year ended 30 June 2023	Half year ended 30 June 2022
	£m	£m
Current tax charge/(credit)	9	(5)
Deferred tax charge on defined benefit schemes	12	160
Total tax charge relating to other comprehensive income items	21	155

7.3 Tax credited to equity

	Half year ended 30 June 2023	Half year ended 30 June 2022
	£m	£m
Current tax credit on Tier 1 Notes	(4)	(3)
Deferred tax credit on foreign exchange and other items	–	(16)
Total tax credit to equity	(4)	(19)

7.4 Reconciliation of tax credit

	Half year ended 30 June 2023	Half year ended 30 June 2022
	£m	£m
Loss before tax	(372)	(2,147)
Policyholder tax credit/(charge)	(65)	468
Loss before the tax attributable to owners	(437)	(1,679)
Tax credit at standard UK rate of 23.5%/19% ¹	(103)	(319)
Non-taxable income and gains ²	(15)	(5)
Disallowable expenses	(1)	–
Prior year tax credit for shareholders ³	9	11
Movement on acquired in-force amortisation at rates other than 19%	10	7
Profits taxed at rates other than 23.5%/19% ⁴	(65)	(14)
Derecognition /(recognition) of previously unrecognised deferred tax assets ⁵	(25)	14
Deferred tax rate change ⁶	(1)	(112)
Current year losses not valued	–	4
Other	(1)	(7)
Owners' tax credit	(192)	(421)
Policyholder tax (credit)/charge	65	(468)
Total tax credit for the period	(127)	(889)

1 The Group's operating segments are predominantly in the UK. The reconciliation of tax credit has therefore, been completed by reference to the standard rate of UK tax.

2 Relates principally to a profit arising on consolidation due to the acquisition of the Sun Life of Canada businesses, not subject to deferred tax.

3 The 2023 tax credit relates to true-ups from the tax reporting provisions in various entities within the group. The 2022 tax credit relates principally to the reassessment of deferred tax on local GAAP to IFRS 17 actuarial liability differences.

4 Profits taxed at rates other than 23.5% relates to overseas profits, consolidated fund investments and UK life company profits subject to marginal shareholder tax rates.

5 Relates primarily to the increase in recognition of deferred tax attributes in Standard Life International DAC which can be supported by deferred tax on local GAAP to IFRS 17 actuarial liability differences. This has been offset by the reduction in the future value of capital losses in ReAssure Limited.

6 Deferred tax rate change relates primarily to movements in deferred tax liabilities, which are expected to unwind at rates in excess of the current year rate of 23.5%.

The standard rate of UK corporation tax for the half year ended 30 June 2023 is 23.5% (half year ended 30 June 2022: 19%). An increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the 2021 Budget which was substantively enacted on 24 May 2021. These new tax rates apply for calculating deferred tax for the 2023 Interim Report. Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	Half year ended 30 June 2023	Year ended 31 December 2022
	£m	£m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	48	82
Excess expenses and deferred acquisition costs	117	116
Intangibles	3	29
Capital losses	51	40
Actuarial liability differences between local GAAP and IFRS 17	5	27

Notes to the condensed consolidated interim financial statements

The Group also has £295 million of BLAGAB (life business) trading losses carried forward as at 30 June 2023 in Phoenix Life Limited and Phoenix Life Assurance Limited (HY22: £nil). £173 million of gross losses are projected to be utilised within these entities, however no value has been attributed in relation to the losses given the interaction with other deductible temporary differences (HY22: £nil). Deferred tax assets have not been recognised in respect of the remaining £122 million (HY22: £ nil) losses due to the uncertainty of future BLAGAB trading profits arising against which the losses could be offset (at entity level).

There is a technical matter which is currently being discussed with HMRC in relation to the L&G insurance business transfer to ReAssure Limited. These discussions are not sufficiently progressed at this stage for recognition of any potential tax benefit arising.

A tax dispute with HMRC in relation to the tax treatment of an asset formerly held by Guardian Assurance Limited (before the business was transferred to ReAssure Limited) was resolved in favour of the Group in 2022. The year end 2022 financial statements included a release for the accrual for the tax under dispute.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

8. Earnings per share

The Group calculates its basic earnings per share based on the present shares in issue using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share are calculated based on the potential future shares in issue assuming the conversion of all potentially dilutive ordinary shares. The weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive share awards granted to employees.

The basic and diluted earnings per share calculations are also presented based on the Group's operating profit net of financing costs. Operating profit is a non-GAAP performance measure that is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items.

The result attributable to ordinary equity holders of the parent for the purposes of computing earnings per share has been calculated as set out below.

	Adjusted operating profit £m	Financing costs £m	Adjusted operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Half year ended 30 June 2023					
Profit/(loss) before the tax attributable to owners	266	(99)	167	(604)	(437)
Tax credit attributable to owners	18	23	41	151	192
Profit/(loss) for the period attributable to owners	284	(76)	208	(453)	(245)
Coupon paid on Tier 1 notes, net of tax relief	–	(11)	(11)	–	(11)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(16)	(16)
Profit/(loss) for the period attributable to ordinary equity holders of the parent	284	(87)	197	(469)	(272)

	Adjusted operating profit £m	Financing costs £m	Adjusted operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Half year ended 30 June 2022 (restated)					
Profit/(loss) before the tax attributable to owners	254	(103)	151	(1,830)	(1,679)
Tax (charge)/credit attributable to owners	(3)	20	17	404	421
Profit/(loss) for the period attributable to owners	251	(83)	168	(1,426)	(1,258)
Coupon paid on Tier 1 notes, net of tax relief	–	(12)	(12)	–	(12)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(31)	(31)
Profit/(loss) for the period attributable to ordinary equity holders of the parent	251	(95)	156	(1,457)	(1,301)

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

	Half year ended 30 June 2023 Number million	Half year ended 30 June 2022 Number million
Issued ordinary shares at beginning of the period	1,000	1,000
Effect of non-contingently issuable shares in respect of Group's long-term incentive plan	1	–
Own shares held by employee benefit trust	(2)	(2)
Weighted average number of ordinary shares	999	998

The diluted weighted average number of ordinary shares outstanding during the period is 1,001 million (half year ended 30 June 2022: 1,001 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave schemes increased the weighted average number of shares on a diluted basis 1,736,066 shares for the half year ended 30 June 2023 (half year ended 30 June 2022: 2,606,242 shares). As losses have an anti-dilutive effect, none of the share-based awards have a dilutive effect in the calculation of basic earnings per share for both periods presented.

Earnings per share disclosures are as follows:

	Half year ended 30 June 2023 pence	Half year ended 30 June 2022 restated pence
Basic earnings per share	(27.1)	(130.4)
Diluted earnings per share	(27.1)	(130.4)
Basic operating earnings net of financing costs per share	19.7	15.6
Diluted operating earnings net of financing costs per share	19.7	15.6

9. Dividends on ordinary shares

	Half year ended 30 June 2023 £m	Half year ended 30 June 2022 £m
Dividend declared and paid	260	248

On 10 March 2023, the Board recommended a final dividend of 26.0p per share in respect of the year ended 31 December 2022. The dividend was approved at the Company's Annual General Meeting, which was held on 4 May 2023. The dividend amounted to £260 million and was paid on 10 May 2023.

10. Share capital

	30 June 2023 £m	31 December 2022 £m
Issued and fully paid:		
1,001.1 million (30 June 2022: 1,000.0 million; 31 December 2022: 1000.4 million) ordinary shares of £0.10 each	100	100

Movements in share capital during the period:

2023	Number	£
Shares in issue at 1 January 2023	1,000,352,477	100,035,247
Ordinary shares issued in the period	726,663	72,667
Shares in issue at 30 June 2023	1,001,079,140	100,107,914

During the period, the Company issued 726,663 shares at a total premium of £4 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

2022	Number	£
Shares in issue at 1 January 2022	999,536,058	99,953,605
Ordinary shares issued in the period	816,419	81,642
Shares in issue at 31 December 2022	1,000,352,477	100,035,247

During the year ended 31 December 2022, 816,419 shares were issued at a premium of £4 million (in order to satisfy obligations to employees under the Group's sharesave schemes).

Notes to the condensed consolidated interim financial statements

11. Other reserves

	Cash flow hedging reserve	Total other reserves
2023	£m	£m
At 1 January 2023	46	46
Other comprehensive income for the period	36	36
At 30 June 2023	82	82

	Owner-occupied property revaluation reserve	Cash flow hedging reserve	Total other reserves
2022	£m	£m	£m
At 1 January 2022	5	51	56
Other comprehensive expense for the period	(5)	(5)	(10)
At 31 December 2022	–	46	46

In June 2021, the Group entered into four cross currency swaps which were designated as hedging instruments in order to effect cash flow hedges of the Group's Euro and US Dollar denominated borrowings. Hedge accounting has been adopted effective from the date of designation of the hedging relationship. The effective portion of changes in the fair value of these derivatives is recognised in other comprehensive income and accumulates within the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in net investment income. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

12. Non-controlling interests

	APEOT £m
2023	
At 1 January 2023	532
Profit for the period	16
Dividends paid	(5)
At 30 June 2023	543

	APEOT £m
2022	
At 1 January 2022	460
Profit for the period	67
Dividends paid	(10)
Increase in non-controlling interest	15
At 31 December 2022	532

The non-controlling interests of £543 million (year ended 31 December 2022: £532 million) reflects third party ownership of abrdn Private Equity Opportunities Trust plc ('APEOT') (formerly known as Standard Life Private Equity Trust plc) determined at the proportionate value of the third party interest in the underlying assets and liabilities. APEOT is a UK Investment Trust listed and traded on the London Stock Exchange. As at 30 June 2023, the Group held 53.6% of the issued share capital of APEOT (31 December 2022: 53.6%).

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

13. Pension schemes

The condensed statement of consolidated financial position incorporates the pension scheme assets and liabilities of the PGL Pension Scheme, the Pearl Group Staff Pension Scheme ('Pearl Scheme'), the Abbey Life Staff Pension Scheme, the ReAssure Staff Pension Scheme and, from 3 April 2023, the Sun Life Assurance Company of Canada 1988 UK and Irish Employee Benefits scheme ('Sun Life of Canada Scheme') as at 30 June 2023.

The PGL Pension Scheme previously entered into 'buy-in' agreements with Phoenix Life Limited ('PLL') in 2016 and 2019, which on completion, covered all the pensioner and deferred members of the Scheme. Plan assets were transferred to a collateral account and this transfer constituted the payment of premium to PLL. These assets are recognised in the relevant line within financial assets in the condensed statement of consolidated financial position. The economic effect of these transactions in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation.

The economic surplus of the PGL Pension Scheme amounted to £22 million (31 December 2022: £23 million). The carrying value of insurance policies effected by the PGL Pension Scheme with the Group of £1,047 million (31 December 2022: £1,079 million) is eliminated on consolidation. The remaining economic surplus is expected to cover future anticipated pension scheme administration expenses and consequently no deduction for the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme has been made. The resulting net pension scheme liability of the PGL Pension Scheme amounted to £1,025 million (31 December 2022: £1,056 million). The value of the collateral assets disclosed within financial assets in the condensed statement of consolidated financial position is £1,173 million (31 December 2022: £1,246 million).

In 2020, the Pearl Scheme entered into a Commitment Agreement with Pearl Group Holdings (No.2) Limited to complete a series of buy-ins with PLL scheduled to be executed by 31 December 2023. Four buy-in transactions have been completed with the final tranche having been completed in November 2022. A total of 100% of the Scheme's pensioner in-payment and deferred member liabilities are now covered by the buy-in transactions, which transfer the associated risks including longevity improvement risk to PLL.

In total, the Scheme has transferred £2,792 million of plan assets to PLL as payment of premium and these assets are recognised in the relevant line within financial assets in the condensed statement of consolidated financial position. The economic effect of the buy-in transactions in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is subsequently eliminated on consolidation. The economic surplus of the Pearl Scheme amounted to £49 million (31 December 2022: £46 million) and the carrying value of insurance policies eliminated on consolidation were £1,479 million (31 December 2022: £1,501 million). The net pension scheme liability of the Pearl Scheme amounted to £1,430 million (31 December 2022: £1,455 million) after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme.

In March 2022, PLL entered into a quota share reinsurance arrangement with an external insurer to reinsure a further c.27% of the risks transferred to PLL as part of the third buy-in transaction with the Pearl Scheme. A total of c.91% of these liabilities have now been reinsured. A premium of £104 million was paid by PLL to the reinsurer. As PLL expects to use the claims received to pay for its obligations under the insurance contract between it and the Pearl scheme (i.e. to settle the defined benefit obligation) the reinsurance arrangement is considered to be a non-qualifying insurance policy and is classified as a reimbursement right. The reinsurance arrangement is expected to match a proportion of the defined benefit obligation of the Pearl Scheme therefore the valuation of the reimbursement right is consistent with the valuation of the associated defined benefit obligation. The value of the reimbursement right asset amounted to £203 million (31 December 2022: £205 million).

During 2022, the Company reached an agreement for the removal of a trustee discretion to pay some pension increases in excess of the 5% cap. The trustee agreed to give up this discretion in exchange for a single 1.6% uplift for current pensions in payment effective from 1 April 2022 and a 1.3% increase to eligible benefits of both pension and deferred members effective from 1 April 2023. In the current period, the financial impact of the 1.3% uplift has been to recognise an increase in the defined benefit obligation of £12 million and a past service cost in the consolidated income statement (at 31 December 2022, the financial impact of the 1.6% uplift was £15 million).

The pension scheme liability of the Abbey Life Staff Pension Scheme amounted to £8 million (31 December 2022: £8 million). Pension scheme assets are stated after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme and after adjusting for the irrecoverable amount of minimum funding requirement obligations.

The pension scheme asset of the ReAssure Staff Pension Scheme amounted to £12 million after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding up of the scheme (31 December 2022: £14 million). The pension scheme liability of the ReAssure Private Retirement Trust amounted to £1 million (31 December 2022: £1 million).

Following the acquisition of SLF of Canada UK Limited on 3 April 2023, the Group's pension schemes now include the Sun Life of Canada Scheme. At 30 June 2023, the pension scheme asset of this scheme amounted to £16 million and the reimbursement right assets, representing non-qualifying insurance policies, were £2 million.

Notes to the condensed consolidated interim financial statements

14. Insurance and reinsurance contract assets and liabilities

Insurance and reinsurance contracts as at 30 June 2023 and 31 December 2022 comprised:

	30 June 2023		31 December 2022	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Total insurance contracts issued	47	(110,591)	48	(107,608)
Total reinsurance contracts held	4,059	–	4,071	(7)

The carrying amounts comprise of the present value of expected future cash flows, a risk adjustment for non-financial risk and the contractual service margin. A movement analysis of these components is provided in note 14.2 for insurance contracts and note 14.3 for reinsurance contracts.

The risk adjustment, net of reinsurance, is summarised as follows:

	At 1 January 2022	Risk expired in the period	Other movements	At 31 December 2022	Risk expired in the period	Other movements	At 30 June 2023
	£m	£m	£m	£m	£m	£m	£m
Insurance contracts issued							
Annuities	1,316	(66)	(372)	878	(35)	(21)	822
Other products	405	(35)	(151)	219	(10)	92	301
Gross risk adjustment	1,721	(101)	(523)	1,097	(45)	71	1,123
Reinsurance contracts held							
Annuities	(553)	36	102	(415)	11	(66)	(470)
Other products	(107)	6	38	(63)	2	(13)	(74)
Reinsurance risk adjustment	(660)	42	140	(478)	13	(79)	(544)
Net risk adjustment	1,061	(59)	(383)	619	(32)	(8)	579

Other movements in 2023 include the impact of new business written in the period of £75 million, new reinsurance contracts initiated of £138 million and the acquisition of the Sun Life of Canada UK business of £35 million.

The risk adjustment decreased over 2022 and 2023 as a result of significant changes in discount rates.

The CSM, net of reinsurance, is summarised as follows:

	At 1 January 2022	CSM recognised for services provided	Other movements	At 31 December 2022	CSM recognised for services provided	Other movements	At 30 June 2023
	£m	£m	£m	£m	£m	£m	£m
Insurance contracts issued							
Annuities	2,918	(268)	529	3,179	(147)	472	3,504
Other products	539	(118)	299	720	(61)	35	694
Gross CSM	3,457	(386)	828	3,899	(208)	507	4,198
Reinsurance contracts held							
Annuities	(898)	83	(208)	(1,023)	53	(238)	(1,208)
Other products	(129)	30	(183)	(282)	12	(9)	(279)
Reinsurance CSM	(1,027)	113	(391)	(1,305)	65	(247)	(1,487)
Net CSM	2,430	(273)	437	2,594	(143)	260	2,711

The CSM increased in the period driven by new business written of £148 million, the acquisition of the Sun Life of Canada UK business of £52 million and a positive impact of favourable assumption changes and demographic experience, partially offset by the release to the income statement for services provided.

14.1 Assumptions

Financial and non-financial assumptions are used to determine the insurance and reinsurance contract liabilities. Financial assumptions are market-consistent whereas non-financial assumptions are set from an entity perspective. Details of the significant financial and non-financial assumptions are detailed below.

14.1.1 Discount rate

All cash flows are discounted using risk-free yield curves adjusted to reflect the timing and liquidity characteristics of those cash flows. For the risk-free yield curve the Group uses those published by the PRA and EIOPA for regulatory reporting. Where necessary, yield curves are interpolated between the last available market data point and the ultimate forward rate.

The Group uses a top-down approach primarily for annuities and a bottom-up discount rate for all other business. Under the top-down approach, the discount rate is determined from the yield implicit in the fair value of an appropriate reference portfolio of assets that reflects the characteristics of the liabilities. For annuity business, the Group determines the reference portfolio based on the strategic asset allocation ('SAA') which aligns to the strategic investment objectives of the Group. The SAA sets out the target level of investment in a range of asset classes and the yield for these asset classes is determined based on the fair value of assets in that class held at the valuation date.

Adjustments are made for differences between the reference portfolio and the insurance contract liability cash flows, including an allowance for credit defaults. The credit default deduction comprises an allowance for both expected and unexpected defaults and takes into consideration long-term historical data on actual defaults and an allowance for variability around these defaults. The credit default deduction is determined based on the assets held at the valuation date.

The approach to determining unexpected defaults is based on a percentage of spread less the expected default allowance. The percentage of spread was set using a top-down view that took into consideration management's best estimate as to the allocation of the spread between illiquidity factors and the risk of default. Given the widening of spreads during 2022 resulting from macro-economic conditions driven by the war in Ukraine and resulting food and energy crises, surging inflation and the Mini Budget, this judgement became more material. Since the beginning of 2022, the Group has been developing a credit model for use in the Phoenix Solvency II Internal Model (subject to PRA approval), which also provides a best estimate view of credit defaults. The new model applies a stress to long-term historical actual default data to determine the variability of defaults. From 30 June 2022, the new model has been used as an input in determining the assumption for unexpected credit defaults as it is considered to provide a more refined view of the variability of defaults, particularly in volatile market conditions.

Under the bottom-up approach, the discount rate is determined as the risk-free yield curve, adjusted for differences in liquidity characteristics by adding an illiquidity premium. For with-profits business a single illiquidity premium is determined for each fund based on the cash flow characteristics of the contracts within the fund and applied to all contracts within the fund.

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The tables below set out the yield curves used to discount the cash flows of insurance contracts for major currencies.

Half year ended 30 June 2023	Risk-free rate (bps)				
	1 year	5 years	10 years	20 years	30 years
GBP	606	503	425	388	364
Euro	398	313	288	266	232

	Liquidity premium over risk-free rate (bps)
Annuities GBP	149
Annuities Euro	45
With-profits GBP - liquid liabilities	20
With-profits Euro - liquid liabilities	20
With-profits GBP - illiquid liabilities	98 - 149

Half year ended 30 June 2022	Risk-free rate (bps)				
	1 year	5 years	10 years	20 years	30 years
GBP	249	252	236	227	217
Euro	74	169	209	217	182

	Liquidity premium over risk-free rate (bps)
Annuities GBP	113
Annuities Euro	47
With-profits GBP - liquid liabilities	10
With-profits Euro - liquid liabilities	10
With-profits GBP - illiquid liabilities	75 - 113

Year ended 31 December 2022	Risk-free rate (bps)				
	1 year	5 years	10 years	20 years	30 years
GBP	446	406	371	354	335
Euro	318	313	309	276	229

	Liquidity premium over risk-free rate (bps)
Annuities GBP	151
Annuities Euro	44
With-profits GBP - liquid liabilities	10
With-profits Euro - liquid liabilities	10
With-profits GBP - illiquid liabilities	100 - 151

14.1.2 Risk adjustment

The Group has used the confidence level technique to derive the risk adjustment for non-financial risk. The risk adjustment percentile is determined based on the Group's view of the compensation required in respect of non-financial risk. The diversification benefit included in the risk adjustment reflects diversification between contracts within the perimeter of the Group's Internal Model. There is no diversification allowed for between contracts measured under standard formula and the internal model. The risk adjustment calibration is set at least annually, off-cycle, based on the Group's current view of risk. The risk adjustment calculation is reassessed at each reporting date, i.e. the risk adjustment is not locked-in at initial recognition.

For with-profit business, the shareholder's portion of non-financial risks (including an allowance for burn-through costs to the shareholder) is allowed for in the derivation of the risk adjustment. For non-profit business held within a with-profit fund, the risk adjustment takes into account the compensation required by both the shareholder and the participating policyholders.

Confidence level techniques are used to derive the overall risk adjustment for non-financial risk and this is allocated down to each group of contracts in accordance with their risk profiles. The confidence level percentile input used to determine the risk adjustment is as follows:

	Half year ended 30 June 2023	Year ended 31 December 2022
Insurance contracts (gross of reinsurance)	80th	80th

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14.2 Movements in present value of future cash flows, risk adjustment, CSM and loss component of insurance contracts

The reconciliations below provide a roll-forward of the net asset or liability for insurance contracts issued showing estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the CSM in each group of insurance contracts.

Where groups of insurance contracts are onerous, a loss component is established. The loss component is established within the LRC and represents a notional record of the losses recognised in the income statement. A separate reconciliation of this loss component is also provided below.

Insurance contracts

Half year ended 30 June 2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin £m	Total £m
Insurance contract liabilities as at 1 January	102,612	1,097	3,899	107,608
Insurance contract assets as at 1 January	(48)	–	–	(48)
Net insurance contract liabilities at 1 January	102,564	1,097	3,899	107,560
Acquisition of SLF Canada UK Limited (note 3.1)	4,245	69	72	4,386
Changes in profit or loss:				
CSM recognised for services provided	–	–	(208)	(208)
Risk adjustment for the risk expired	–	(45)	–	(45)
Experience adjustments	(1)	–	–	(1)
Policyholder tax charges	(12)	–	–	(12)
Total change relating to current service	(13)	(45)	(208)	(266)
Contracts initially recognised in the period	(215)	75	141	1
Changes in estimates that adjust the CSM	(161)	(94)	255	–
Changes in estimates that do not adjust the CSM	(43)	66	–	23
Total change relating to future service	(419)	47	396	24
Adjustments to liabilities for incurred claims (past service)	(20)	–	–	(20)
Insurance service result	(452)	2	188	(262)
Insurance finance expense/(income)	396	(2)	29	423
Total changes in profit or loss	(56)	–	217	161
Cash flows:				
Premiums received	4,464	–	–	4,464
Claims and other expenses paid	(5,334)	–	–	(5,334)
Insurance acquisition cash flows	(54)	–	–	(54)
Total cash flows	(924)	–	–	(924)
Other movements	(606)	(43)	10	(639)
Net insurance contract liabilities as at 30 June	105,223	1,123	4,198	110,544
Insurance contract liabilities as at 30 June	105,270	1,123	4,198	110,591
Insurance contract assets as at 30 June	(47)	–	–	(47)
Net insurance contract liabilities as at 30 June	105,223	1,123	4,198	110,544

Included within the estimates of the present value of future cash flows at 30 June 2023 is £4,168 million (1 January 2023: £4,056 million) of with-profit fund surpluses expected to be distributed to existing policyholders over time.

Year ended 31 December 2022 (restated)	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin £m	Total £m
Insurance contract liabilities as at 1 January	127,348	1,721	3,457	132,526
Changes in profit or loss:				
CSM recognised for services provided	–	–	(386)	(386)
Risk adjustment for the risk expired	–	(101)	–	(101)
Experience adjustments	61	–	–	61
Policyholder tax charge	35	–	–	35
Total change relating to current service	96	(101)	(386)	(391)
Contracts initially recognised in the period	(404)	132	279	7
Changes in estimates that adjust the CSM	(412)	(62)	474	–
Changes in estimates that do not adjust the CSM	499	19	–	518
Total change relating to future service	(317)	89	753	525
Adjustments to liabilities for incurred claims (past service)	(29)	–	–	(29)
Insurance service result	(250)	(12)	367	105
Insurance finance (income)/expense	(22,319)	(615)	54	(22,880)
Total changes in profit or loss	(22,569)	(627)	421	(22,775)
Cash flows:				
Premiums received	6,906	–	–	6,906
Claims and other expenses paid	(9,684)	–	–	(9,684)
Insurance acquisition cash flows	(129)	–	–	(129)
Total cash flows	(2,907)	–	–	(2,907)
Other movements	692	3	21	716
Net insurance contract liabilities as at 31 December	102,564	1,097	3,899	107,560
Insurance contract liabilities as at 31 December	102,612	1,097	3,899	107,608
Insurance contract assets as at 31 December	(48)	–	–	(48)
Net insurance contract liabilities as at 31 December	102,564	1,097	3,899	107,560

Included within the estimates of the present value of future cash flows at 31 December 2022 is £4,056 million (1 January 2022: £5,433 million) of with-profit fund surpluses expected to be distributed to existing policyholders over time.

Insurance contracts

	Loss component	
	Half year ended 30 June 2023	Year ended 31 December 2022 restated
	£m	£m
Loss component as at 1 January	656	137
Insurance service expenses:		
Incurring claims and other expenses	(51)	(9)
Losses on onerous contracts and reversal of those losses	24	525
Insurance service result	(25)	516
Insurance finance income	11	3
Total changes in profit or loss	(14)	519
Loss component as at 30 June / 31 December	642	656

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14.3 Movements in present value of future cash flows, risk adjustment, CSM and loss-recovery component of reinsurance contracts held

The reconciliations below provide a roll-forward of the net asset or liability for reinsurance contracts held showing estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the CSM in each group of reinsurance contracts.

A reconciliation of the loss recovery component is also provided.

Reinsurance contracts held

Half year ended 30 June 2023	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
	£m	£m	£m	£m
Reinsurance contract liabilities as at 1 January	–	–	(7)	(7)
Reinsurance contract assets as at 1 January	2,281	478	1,312	4,071
Net reinsurance contract assets as at 1 January	2,281	478	1,305	4,064
Acquisition of SLF Canada UK Limited (note 3.1)	(207)	34	20	(153)
Changes in profit of loss				
CSM recognised for services received	–	–	(65)	(65)
Risk adjustment for the risk expired	–	(13)	–	(13)
Experience adjustments	(36)	–	–	(36)
Total change relating to current service	(36)	(13)	(65)	(114)
Contracts initially recognised in the period	(131)	138	(7)	–
Changes in estimates that adjust the CSM	(179)	(39)	218	–
Changes in estimates that do not adjust the CSM	–	(6)	–	(6)
Total change relating to future service	(310)	93	211	(6)
Net expenses from reinsurance contracts	(346)	80	146	(120)
Reinsurance finance (expense)/income	(135)	(15)	11	(139)
Total changes in profit or loss	(481)	65	157	(259)
Cash flows:				
Premiums paid	1,209	–	–	1,209
Claims recovered and other expenses paid	(906)	–	–	(906)
Total cash flows	303	–	–	303
Other movements	132	(33)	5	104
Reinsurance contract assets as at 30 June	2,028	544	1,487	4,059

Reinsurance contracts held

Year ended 31 December 2022 (restated)	Estimates of the present	Risk	Contractual	Total
	value of future cash			
	flows			
	£m	£m	£m	£m
Reinsurance contract assets as at 1 January	3,033	660	1,027	4,720
CSM recognised for services received	–	–	(113)	(113)
Risk adjustment for the risk expired	–	(42)	–	(42)
Experience adjustments	(14)	–	–	(14)
Total change relating to current service	(14)	(42)	(113)	(169)
Contracts initially recognised in the period	(193)	120	73	–
Changes in estimates that adjust the CSM	(278)	5	273	–
Changes in estimates that do not adjust the CSM	1	(5)	–	(4)
Total change relating to future service	(470)	120	346	(4)
Adjustments to liabilities for incurred claims (past service)	11	–	–	11
Net expenses from reinsurance contracts	(473)	78	233	(162)
Reinsurance finance (expense)/ income	(810)	(260)	18	(1,052)
Total changes in profit or loss	(1,283)	(182)	251	(1,214)
Cash flows:				
Premiums paid	1,656	–	–	1,656
Claims recovered and other expenses paid	(1,090)	–	–	(1,090)
Total cash flows	566	–	–	566
Transfer to other items in the statement of financial position	–	–	–	–
Other movements	(35)	–	27	(8)
Net reinsurance contract assets/(liabilities) as at 31 December	2,281	478	1,305	4,064
Reinsurance contract liabilities as at 31 December	–	–	(7)	(7)
Reinsurance contract assets as at 31 December	2,281	478	1,312	4,071
Net reinsurance contract assets as at 31 December	2,281	478	1,305	4,064

Reinsurance contracts held

	Loss recovery component	
	Half year ended	Year ended
	30 June 2023	31 December 2022
	£m	restated
	£m	£m
Loss recovery component as at 1 January	(46)	(52)
Reinsurance expenses:		
Claims recoverable and other expenses incurred	1	3
Recognition and reversals of loss-recovery from onerous underlying contracts	6	4
Net income or expense from reinsurance contracts	7	7
Reinsurance finance income	(1)	(1)
Total changes in profit or loss	6	6
Loss recovery component as at 30 June/31 December	(40)	(46)

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15. Borrowings

	30 June 2023	31 December 2022
	£m	£m
Carrying value		
£300 million multi-currency revolving credit facility	100	62
Property reversions loan	56	64
Total policyholder borrowings	156	126
£428 million Tier 2 subordinated notes	427	427
US \$500 million Tier 2 notes	392	413
€500 million Tier 2 notes	425	439
US \$750 million Contingent Convertible Tier 1 notes	588	618
£500 million Tier 2 notes	488	487
US \$500 million Fixed Rate Reset Tier 2 notes	392	412
£500 million 5.867% Tier 2 subordinated notes	540	543
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	256	259
£250 million 4.016% Tier 3 subordinated notes	255	256
Total shareholder borrowings	3,763	3,854
Total borrowings	3,919	3,980

During the period, the Group increased the amount of its unsecured revolving credit facility from £1.25 billion to £1.75 billion. The terms of the facility remain unchanged and it continues to mature in June 2026 and accrues interest at a margin over SONIA that is based on credit rating. The facility remained undrawn as at 30 June 2023.

On 15 September 2023, the Group entered into a further contingent £300 million unsecured loan facility that matures in September 2024. The loan facility accrues interest at a margin over SONIA based on the timeframe by which any drawn amounts remain outstanding.

16. Financial instruments

16.1 Fair values

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

	30 June 2023	
	Carrying value £m	Fair value £m
Financial assets measured at carrying and fair value		
Financial assets at fair value through profit or loss ('FVTPL') (mandatory):		
Loans and deposits	202	202
Derivatives	3,281	3,281
Equities	87,056	87,056
Investment in associate	273	273
Debt securities	87,310	87,310
Collective investment schemes	74,387	74,387
Reinsurers' share of investment contract liabilities	9,167	9,167
Financial assets measured at amortised cost:		
Loans and deposits	13	13
Total financial assets	261,689	261,689
Less amounts classified as held for sale (see note 3.2)	(4,363)	(4,363)
Total financial assets less amounts classified as held for sale	257,326	257,326

Restated	31 December 2022	
	Carrying value £m	Fair value £m
Financial assets measured at carrying and fair values		
Financial assets at fair value through profit or loss:		
Derivatives	4,071	4,071
Financial assets designated at FVTPL upon initial recognition:		
Equities	76,780	76,780
Investment in associate	329	329
Debt securities	84,710	84,710
Collective investment schemes	78,353	78,353
Reinsurers' share of investment contract liabilities	9,090	9,090
Financial assets measured at amortised cost:		
Loans and deposits	268	268
Total financial assets	253,601	253,601
Less amounts classified as held for sale (see note 3.2)	(4,629)	(4,629)
Total financial assets less amounts classified as held for sale	248,972	248,972

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	30 June 2023		31 December 2022	
	Carrying value	Fair value	Carrying value restated	Fair value restated
	£m	£m	£m	£m
Financial liabilities measured at carrying and fair values				
Financial liabilities at FVTPL (mandatory):				
Derivatives	4,730	4,730	5,879	5,879
Financial liabilities designated upon initial recognition:				
Borrowings	56	56	64	64
Net asset value attributable to unit holders	2,965	2,965	3,042	3,042
Investment contract liabilities	155,354	155,354	149,481	149,481
Financial liabilities measured at amortised cost:				
Borrowings	3,863	3,533	3,916	3,644
Obligations for repayment of collateral received	973	973	1,706	1,706
Total financial liabilities	167,941	167,611	164,088	163,816
Less amounts classified as held for sale (see note 3.2)	(7,841)	(7,841)	(8,316)	(8,316)
Total financial liabilities less amounts classified as held for sale	160,100	159,770	155,772	155,500

16.2 Fair value hierarchy

16.2.1 Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments

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

Level 2 financial instruments

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

Level 3 financial instruments

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

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) during each reporting period.

16.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2023

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Financial assets at FVTPL (mandatory):				
Loan and deposits	–	196	6	202
Derivatives	219	2,891	171	3,281
Equities	84,713	94	2,249	87,056
Investment in associate	273	–	–	273
Debt securities	45,729	29,308	12,273	87,310
Collective investment schemes	71,033	2,989	365	74,387
Reinsurers' share of investment contract liabilities	9,167	–	–	9,167
Total financial assets measured at fair value	211,134	35,478	15,064	261,676
Less amounts classified as held for sale (see note 3.2)	(3,396)	(191)	(776)	(4,363)
Total financial assets measured at fair value, excluding amounts classified as held for sale	207,738	35,287	14,288	257,313

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Financial liabilities at FVTPL (mandatory):				
Derivatives	170	4,318	242	4,730
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	56	56
Net asset value attributable to unit holders	2,965	–	–	2,965
Investment contract liabilities	–	155,354	–	155,354
Total financial liabilities measured at fair value	3,135	159,672	298	163,105
Less amounts classified as held for sale (see note 3.2)	–	(7,841)	–	(7,841)
Total financial liabilities measured at fair value less amounts classified as held for sale	3,135	151,831	298	155,264

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At 31 December 2022

Restated	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Financial assets at fair value through profit and loss:				
Derivatives	165	3,754	152	4,071
Financial assets designated at FVTPL upon initial recognition:				
Equities	74,464	124	2,192	76,780
Investment in associate	329	–	–	329
Debt securities	48,151	25,094	11,465	84,710
Collective investment schemes	75,962	2,079	312	78,353
Reinsurers' share of investment contract liabilities	9,090	–	–	9,090
Total financial assets measured at fair value	208,161	31,051	14,121	253,333
Less amounts classified as held for sale (see note 3.2)	(3,661)	(179)	(789)	(4,629)
Total financial assets measured at fair value, excluding amounts classified as held for sale	204,500	30,872	13,332	248,704

Restated	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Derivatives	98	5,538	243	5,879
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	64	64
Net asset value attributable to unit holders	3,042	–	–	3,042
Investment contract liabilities	–	149,481	–	149,481
Total financial liabilities measured at fair value	3,140	155,019	307	158,466
Less amounts classified as held for sale (see note 3.2)	–	(8,316)	–	(8,316)
Total financial liabilities measured at fair value, excluding amounts classified as held for sale	3,140	146,703	307	150,150

16.2.3 Significant inputs and input values for Level 3 financial instruments

Description	Valuation technique	Significant inputs	Key unobservable input value	
			30 June 2023	31 December 2022
Equities	Single broker ¹ and net asset value ²	Single broker indicative price	N/A	N/A
Debt securities (see 16.2.4 for further details)				
Loans guaranteed by export credit agencies & supranationals	DCF model ³	Credit spread	79bps (weighted average)	111bps (weighted average)
Private corporate credit	DCF model ³	Credit spread	181bps (weighted average)	169bps (weighted average)
Infrastructure loans	DCF model ³	Credit spread	198bps (weighted average)	220bps (weighted average)
Loans to housing associations	DCF model ³	Credit spread	121bps (weighted average)	164bps (weighted average)
Local authority loans	DCF model ³	Credit spread	122bps (weighted average)	137bps (weighted average)
Equity Release Mortgage loans ('ERM')	DCF model and Black-Scholes model ⁴	Spread	230bps over the IFRS reference curve	260bps over the IFRS reference curve
		House price inflation	+75bps adjustment to RPI	+75bps adjustment to RPI
		House price exposure	£288,386 (average)	£304,088 (average)
		Mortality	Average life expectancy of a male and female currently aged 75 is 14.6 years and 16 years respectively	Average life expectancy of a male and female currently aged 75 is 14.5 years and 15.9 years respectively
		Voluntary redemption rate	150bps to 700bps	150bps to 700bps
Commercial real estate loans	DCF model ³	Credit spread	253bps (weighted average)	253bps (weighted average)
Income strips ⁵	Income capitalisation	Credit spread	595bps	661bps
Collective investment schemes	Net asset value statements ²	N/A	N/A	N/A
Borrowings				
Property reversions loans (see note 15)	Internally developed model	Mortality rate	130% IFL92C15 (Female) ⁶	130% IFL92C15 (Female) ⁶
			130% IML92C15 (Male) ⁶	130% IML92C15 (Male) ⁶
		House price inflation	3 year RPI rate plus 75bps	3 year RPI rate plus 75bps
		Discount rate	3 year swap rate plus 170bps	3 year swap rate plus 170bps
		Deferred possession rate	370bps	370bps
Derivative assets and liabilities				
Forward private placements, infrastructure and local authority loans ⁷	DCF model ³	Credit spread	128bps (weighted average)	145bps (weighted average)
Longevity swaps ⁸	DCF model ³	Swap curve	swap curve + 36bps	swap curve + 36bps
Equity Release Income Plan total return swap ⁹	DCF model ³	Credit spread	500bps	500bps

1 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.

2 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.

Notes to the condensed consolidated interim financial statements

- 3 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 risk-free rate is taken from an appropriate gilt of comparable duration. The spread is derived from a basket of comparable securities.
- 4 ERM loans: The loans are valued using a DCF model and a Black-Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property. The future cash flows are estimated based on assumed levels of mortality derived from published mortality tables, entry into long-term care rates and voluntary redemption rates. Cash flows include an allowance for the expected cost of providing a NNEG assessed under a real world approach using a closed form model including an assumed level of property value volatility. For the NNEG assessment, property values are indexed from the latest property valuation point and then assumed to grow in line with an RPI based assumption. Cash flows are discounted using a risk free curve plus a spread, where the spread is based on recent originations, with margins to allow for the different risk profiles of ERM loans.
- 5 Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30-45 years) or a ground lease (typically 45-75 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1). The income strips are valued using an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips.
- 6 IFL92C15 and IML92C15 relate to immediate annuitant female and male lives and refer to the 92 series mortality tables produced by the Continuous Mortality Investigation ('CMI').
- 7 Derivative liabilities include forward investments of £134 million (31 December 2022: £146 million) which include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates.
- 8 Included within derivative assets and liabilities are longevity swap contracts with corporate pension schemes with a fair value of £171 million (31 December 2022: £152 million) and £53 million (31 December 2022: £34 million) respectively.
- 9 Included within derivative liabilities is the Equity Release Income Plan ('ERIP') total return swap with a value of £54 million (31 December 2022: £63 million), under which a share of the disposal proceeds arising on a portfolio of property reversions is payable to a third party.

16.2.4 Level 3 debt securities

	30 June 2023	31 December 2022
	£m	£m
Analysis of Level 3 debt securities		
Unquoted corporate bonds:		
Loans guaranteed by export credit agencies & supra-nationals	472	402
Private corporate credit	1,563	1,422
Infrastructure loans - project finance	895	882
Infrastructure loans-corporate	1,207	1,175
Loans to housing associations	970	691
Local authority loans	829	596
Equity release mortgages	4,099	3,934
Commercial real estate loans	977	1,104
Income strips	773	786
Bridging loans to private equity funds	479	462
Other	9	11
Total Level 3 debt securities	12,273	11,465
Less amounts classified as held for sale	(773)	(786)
Total Level 3 debt securities excluding amounts classified as held for sale	11,500	10,679

16.2.5 Level 3 financial instrument sensitivities

	30 June 2023	31 December 2022
	£m	£m
Sensitivities of level 3 financial instruments		
Debt securities – Loans guaranteed by export credit agencies & supranationals		
65bps increase in spread	(12)	(9)
65bps decrease in spread	13	11
Debt securities – Private corporate credit		
65bps increase in spread	(92)	(98)
65bps decrease in spread	117	112
Debt securities – Infrastructure loans		
65bps increase in spread	(100)	(103)
65bps decrease in spread	103	107
Debt securities – Loans to housing associations		
65bps increase in spread	(61)	(54)
65bps decrease in spread	73	58
Debt securities – Local authority loans		
65bps increase in spread	(69)	(51)
65bps decrease in spread	75	55
Debt securities – ERM loans		
100bps increase in spread	(341)	(329)
100bps decrease in spread	380	370
5% increase in mortality	13	13
5% decrease in mortality	(14)	(14)
15% increase in voluntary redemption rate	45	49
15% decrease in voluntary redemption rate	(49)	(52)
1% increase in house price inflation	36	27
1% decrease in house price inflation	(53)	(42)
10% increase in house prices	29	22
10% decrease in house prices	(47)	(38)
Debt securities – CRELs		
65bps increase in spread	(26)	(18)
65bps decrease in spread	27	19
Debt securities – Income strips		
35bps increase in spread	(63)	(76)
35bps decrease in spread	75	88
Derivatives – Forward private placements, infrastructure and local authority loans¹		
65bps increase in spread	(16)	(30)
65bps decrease in spread	17	31
Derivatives – Longevity swap contracts		
100bps increase in swap curve	(15)	(17)
100bps decrease in swap curve	19	21
Derivatives – Equity Release Income Plan total return swap		
100bps increase in spread	1	2
100bps decrease in spread	(1)	(2)

For the property reversions loans and bridging loans to equity funds, there are no reasonably possible 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 and collective investment schemes) no sensitivity information has been prepared as the net asset statements are provided by independent third parties.

Notes to the condensed consolidated interim financial statements

16.2.6 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2023

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets mandatorily at FVTPL:		
Equities	23	8
Collective investment schemes ¹	1,074	9
Debt securities	1,286	863

¹ As a result of the assessment of the liquidity of the underlying investments held within collective investment schemes, in accordance with the Group's fair value hierarchy classification methodology a net £1,065 million of collective investment schemes has transferred from Level 1 to Level 2.

At 31 December 2022

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value:		
Derivatives	48	–
Financial assets designated at FVTPL upon initial recognition:		
Equities	73	5
Collective investment schemes	28	–
Debt securities	1,478	1,267

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

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

16.2.7 Movement in Level 3 financial instruments measured at fair value
30 June 2023

	At 1 January 2023 £m	Reclassification on transition to IFRS9 ¹ £m	At 1 January 2023 (restated) £m	Net (losses)/ gains in income statement £m	Effect of acquisition/ purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2023 ² £m	Unrealised (losses)/ gains on assets held at end of period £m
Financial assets										
measured at fair value										
Financial assets at FVTPL (mandatory):										
Loans and deposits	–	7	7	(1)	–	–	–	–	6	–
Derivatives	152	–	152	19	–	–	–	–	171	19
Equities	2,192	–	2,192	41	189	(173)	–	–	2,249	(9)
Debt securities	11,465	–	11,465	(225)	3,391	(2,508)	150	–	12,273	(185)
Collective investment schemes	312	–	312	7	52	(5)	–	(1)	365	7
Total financial assets measured at fair value	14,121	7	14,128	(159)	3,632	(2,686)	150	(1)	15,064	(168)

1 See note 2.2.1 for further details.

2 Total financial assets of £15,064 million includes £776 million of assets classified as held for sale.

	At 1 January 2023 £m	Net losses in income statement £m	Effect of purchases £m	Sales/ Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2023 £m	Unrealised losses on liabilities held at end period £m
Financial liabilities measured at fair value								
Financial liabilities at FVTPL (mandatory):								
Derivatives	243	8	–	(9)	–	–	242	3
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	64	1	–	(9)	–	–	56	1
Total financial liabilities measured at fair value	307	9	–	(18)	–	–	298	4

Notes to the condensed consolidated interim financial statements

31 December 2022

	At 1 January 2022	Net (losses)/ gains in income statement	Effect of purchases	Sales	Transfers from Level 1 and Level 2	Transfers to Level 1 and Level 2	At 31 December 2022 ¹	Unrealised (losses)/gains on assets held at end of period
	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets measured at fair value								
Derivatives	237	(85)	–	–	–	–	152	(85)
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,899	177	438	(369)	47	–	2,192	12
Debt securities	12,452	(3,544)	6,838	(4,277)	2	(6)	11,465	(3,595)
Collective investment schemes	286	(79)	108	(3)	–	–	312	(73)
Total financial assets measured at fair value	14,874	(3,531)	7,384	(4,649)	49	(6)	14,121	(3,741)

¹ Total financial assets of £14,121 million includes £789 million of assets classified as held for sale.

	At 1 January 2022	Net losses in income statement	Effect of purchases	Sales/ repayments	Transfers from Level 1 and Level 2	Transfers to Level 1 and Level 2	At 31 December 2022	Unrealised losses on liabilities held at end of period
	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities measured at fair value								
Derivatives	125	130	–	(12)	–	–	243	123
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	70	9	–	(15)	–	–	64	9
Total financial liabilities measured at fair value	195	139	–	(27)	–	–	307	132

17. Cash flows from operating activities

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

	Half year ended 30 June 2023 £m	Half year ended 30 June 2022 restated ¹ £m
Loss for the period before tax	(372)	(2,147)
Adjustments for non-cash movements in loss for the period before tax:		
Gain on acquisition of SLF Canada UK Limited (note 3.1)	(66)	–
Fair value losses/(gains) on:		
Investment property	46	(482)
Financial assets and derivative liabilities	(325)	36,021
Change in fair value of borrowings	(84)	154
Amortisation and impairment of intangible assets	161	175
Share-based payment charge	10	8
Finance costs	134	116
Net interest expense on Group defined benefit pension scheme liability/asset	61	27
Pension past service costs	12	–
Other costs of pension schemes	3	3
Movements in assets and liabilities relating to operations:		
(Increase)/decrease in investment assets	(2,046)	4,861
(Increase)/decrease in reinsurers' share of investment contract liabilities	(76)	1,319
(Increase)/decrease in net reinsurance contract assets	(148)	235
Decrease in insurance contract assets and liabilities	(1,399)	(17,681)
Increase/(decrease) in investment contract liabilities	3,173	(16,347)
Decrease in assets classified as held for sale	376	949
Decrease in obligation for repayment of collateral received	(735)	(1,799)
Decrease in liabilities classified as held for sale	(491)	(1,254)
Net decrease/(increase) in working capital	1,509	(2,025)
Other cash movements relating to operations:		
Contributions to defined benefit pension schemes	(5)	(5)
Cash (utilised)/generated by operations	(262)	2,128

¹ Prior period comparatives have been restated on transition to IFRS 17 Insurance Contracts (see note 2 for further details).

18. Related party transactions

The nature of the related party transactions of the Group has not changed from those referred to in the Group's consolidated financial statements for the year ended 31 December 2022.

There were no transactions with related parties during the half year ended 30 June 2023 which have had a material effect on the results or financial position of the Group.

19. Contingent liabilities

In the normal course of business, the Group is exposed to certain legal issues, which can involve litigation and arbitration. At the period end, the Group has a number of contingent liabilities in this regard, none of which are considered by the Directors to be material.

20 Events after the reporting date

On 15 September 2023, the Board declared an interim dividend per share of 26.0p for the half year ended 30 June 2023 (half year ended 30 June 2022: 24.8p; year ended 31 December 2022: 26.0p). The cost of this dividend has not been recognised as a liability in the interim financial statements for the half year ended 30 June 2023 and will be charged to the statement of consolidated changes in equity when paid.

Additional life company asset disclosures

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

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

30 June 2023

Carrying value	Shareholder and non-profit funds ¹	Participating supported ¹	Participating non-supported ²	Unit-linked ²	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	4,961	951	5,374	8,391	19,677
Debt securities - gilts and foreign government bonds	5,991	272	14,491	13,658	34,412
Debt securities - other government and supranationals	1,881	246	2,068	3,136	7,331
Debt securities - infrastructure loans - project finance ³	933	-	-	-	933
Debt securities - infrastructure loans - corporate ⁴	1,237	-	1	-	1,238
Debt securities - local authority loans ⁵	924	-	2	4	930
Debt securities - loans guaranteed by export credit agencies and supranationals ⁶	574	-	-	-	574
Debt securities - private corporate credit ⁷	1,794	-	99	8	1,901
Debt securities - loans to housing associations ⁸	1,046	-	7	2	1,055
Debt securities - commercial real estate loans ⁹	977	-	-	-	977
Debt securities - equity release mortgages ⁹	4,099	-	-	-	4,099
Debt securities - other debt securities	14,649	1,095	11,635	23,195	50,574
	34,105	1,613	28,303	40,003	104,024
Equity securities	116	48	17,210	109,176	126,550
Property investments	61	19	1,669	5,499	7,248
Income strips ⁹	-	-	-	773	773
Other investments ¹⁰	(719)	(723)	475	9,536	8,569
Total Life Company assets	38,524	1,908	53,031	173,378	266,841
Less assets held by disposal groups ¹¹	-	-	-	(7,839)	(7,839)
At 30 June 2023	38,524	1,908	53,031	165,539	259,002
Cash and cash equivalents in Group holding companies ¹²					246
Cash and financial assets in other Group companies					870
Financial assets held by the non-controlling interest in consolidated collective investment schemes					3,405
Financial assets in consolidated funds held by disposal groups ¹¹					1,035
Total Group consolidated assets excluding amounts classified as held for sale					264,558
Comprised of:					
Investment property					3,904
Financial assets					257,326
Cash and cash equivalents					8,055
Derivative liabilities					(4,727)
					264,558

1. Includes assets where shareholders of the life companies bear the investment risk.

2. Includes assets where policyholders bear most of the investment risk.

3. Total infrastructure loans - project finance of £933 million include £895 million classified as Level 3 debt securities in the fair value hierarchy.

4. Total infrastructure loans - corporate of £1,238 million include £1,207 million classified as Level 3 debt securities in the fair value hierarchy.

5. Total local authority loans of £930 million include £829 million classified as Level 3 debt securities in the fair value hierarchy.

6. Total loans guaranteed by export credit agencies and supranationals of £574 million include £472 million classified as Level 3 debt securities in the fair value hierarchy.

7. Total private corporate credit of £1,901 million include £1,563 million classified as Level 3 debt securities in the fair value hierarchy.

8. Total loans to housing associations of £1,055 million include £970 million classified as Level 3 debt securities in the fair value hierarchy.

9. All commercial real estate loans, equity release mortgages and income strips are classified as Level 3 debt securities in the fair value hierarchy.

10. Includes other loans of £183 million, net derivative liabilities of £(1,368) million, reinsurers' share of investment contracts of £9,167 million and other investments of £587 million.

11. See note 3.2 to the consolidated interim financial statements for further details.

12. Does not show the proforma view of cash disclosed on page 7 of the interim report & accounts.

31 December 2022 restated¹

Carrying value	Shareholder and non-profit funds ²	Participating supported ²	Participating non-supported ³	Unit-linked ³	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	4,385	1,027	5,312	6,445	17,169
Debt securities - gilts and foreign government bonds	4,913	260	15,065	13,212	33,450
Debt securities - other government and supranationals	1,691	242	1,717	2,341	5,991
Debt securities - infrastructure loans - project finance ⁴	922	-	-	-	922
Debt securities - infrastructure loans - corporate ⁵	1,205	-	1	-	1,206
Debt securities - local authority loans ⁶	686	1	2	4	693
Debt securities - loans guaranteed by export credit agencies and supranationals ⁷	509	-	-	-	509
Debt securities - private corporate credit ⁸	1,660	-	100	8	1,768
Debt securities - loans to housing associations ⁹	769	-	8	2	779
Debt securities - commercial real estate loans ¹⁰	1,104	-	-	-	1,104
Debt securities - equity release mortgages ¹⁰	3,934	-	-	-	3,934
Debt securities - other debt securities	13,895	1,118	13,067	33,515	61,595
	31,288	1,621	29,960	49,082	111,951
Equity securities	109	46	17,114	94,462	111,731
Property investments	68	22	1,698	5,361	7,149
Income strips ¹⁰	-	-	-	786	786
Other investments ¹¹	(1,241)	(508)	732	9,273	8,256
Total Life Company assets	34,609	2,208	54,816	165,409	257,042
Less assets held by disposal groups ¹²	-	-	-	(8,312)	(8,312)
At 31 December 2022	34,609	2,208	54,816	157,097	248,730
Cash and cash equivalents in Group holding companies					502
Cash and financial assets in other Group companies					1,071
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,213
Financial assets in consolidated funds held by disposal					1,147
Total Group consolidated assets excluding amounts classified as held for sale					255,663
Comprised of:					
Investment property					3,727
Financial assets					248,972
Cash and cash equivalents					8,839
Derivative liabilities					(5,875)
					255,663

1. Prior period comparatives have been restated on transition to IFRS 17 *Insurance Contracts* (see note 2 for further details). This has resulted in a net reduction of £(9) million as result of moving £(11) million policy loans to insurance contracts along with a £2 million increase in reinsurance share of investment contracts.

2. Includes assets where shareholders of the life companies bear the investment risk.

3. Includes assets where policyholders bear most of the investment risk.

4. Total infrastructure loans - project finance of £922 million include £882 million classified as Level 3 debt securities in the fair value hierarchy.

5. Total infrastructure loans - corporate of £1,206 million include £1,175 million classified as Level 3 debt securities in the fair value hierarchy.

6. Total local authority loans of £693 million include £596 million classified as Level 3 debt securities in the fair value hierarchy.

7. Total loans guaranteed by export credit agencies and supranationals of £509 million include £402 million classified as Level 3 debt securities in the fair value hierarchy.

8. Total private corporate credit of £1,768 million include £1,422 million classified as Level 3 debt securities in the fair value hierarchy.

9. Total loans to housing associations of £779 million include £691 million classified as Level 3 debt securities in the fair value hierarchy.

10. All commercial real estate loans, equity release mortgages and income strips are classified as Level 3 debt securities in the fair value hierarchy.

11. Includes other loans of £398 million, net derivative liabilities of £(1,837) million, reinsurers' share of investment contracts of £9,090 million and other investments of £605 million.

12. See note 3.2 to the consolidated interim financial statements for further details.

The following table provides a reconciliation of the total life company assets to Assets Under Administration ('AUA') as detailed in the Business Review on page 12.

	At 30 June 2023 £bn	At 31 December 2022 £bn
Total Life Company assets excluding amounts classified as held for sale	259.0	248.7
Off-balance sheet AUA ¹	10.0	10.3
Assets Under Administration	269.0	259.0

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

All of the life companies' debt securities are held at fair value through profit or loss in accordance with IFRS 9 Financial Instruments, and therefore already reflect any reduction in value between the date of purchase and the reporting date.

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

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

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

	AAA £m	AA £m	A £m	BBB £m	BB & below ¹ £m	Total £m
Sector analysis of shareholder debt portfolio						
Industrials	–	422	210	660	15	1,307
Basic materials	17	1	146	31	–	195
Consumer, cyclical	–	310	318	113	18	759
Technology and telecoms	181	293	705	583	1	1,763
Consumer, non-cyclical	239	303	795	218	–	1,555
Structured finance	–	–	37	–	–	37
Banks ²	455	522	2,952	385	58	4,372
Financial services	126	564	135	76	14	915
Diversified	–	4	17	–	–	21
Utilities	–	228	959	1,485	9	2,681
Sovereign, sub-sovereign and supranationals ³	1,274	6,690	548	115	–	8,627
Real estate	22	548	2,936	929	84	4,519
Investment companies	1	103	7	–	–	111
Insurance	20	256	182	162	77	697
Oil and gas	–	253	314	66	–	633
Collateralised debt obligations	18	18	18	4	–	58
Private equity loans	–	–	17	99	–	116
Equity release mortgages ⁴	2,274	882	857	86	–	4,099
Infrastructure loans	–	100	81	1,288	171	1,640
At 30 June 2023	4,627	11,497	11,234	6,300	447	34,105

1 Includes unrated holdings of £67 million.

2 The £4,372 million total shareholder exposure to bank debt comprised £3,401 million senior debt and £971 million subordinated debt.

3 Includes £634 million reported as local authority loans and £121 million reported as loans guaranteed by export credit agencies and supranationals in the summary table on page 86.

4 The credit ratings attributed to equity release mortgages are based on the ratings assigned to the internal securitised loan notes.

Sector analysis of shareholder debt portfolio	AAA £m	AA £m	A £m	BBB £m	BB & below ¹ £m	Total £m
Industrials	–	395	252	643	11	1,301
Basic materials	–	1	130	6	–	137
Consumer, cyclical	–	311	314	111	67	803
Technology and telecoms	186	288	517	551	–	1,542
Consumer, non-cyclical	246	328	802	231	–	1,607
Structured finance	–	–	38	–	–	38
Banks ²	526	464	2,919	344	39	4,292
Financial services	139	401	100	68	19	727
Diversified	–	5	29	–	–	34
Utilities	19	141	727	1,353	–	2,240
Sovereign, sub-sovereign and supranational ³	932	5,838	509	116	2	7,397
Real estate	76	234	2,590	1,053	180	4,133
Investment companies	1	125	–	5	–	131
Insurance	22	354	321	70	43	810
Oil and gas	–	132	346	55	–	533
Collateralised debt obligations	–	7	–	–	–	7
Private equity loans	–	–	7	69	–	76
Equity release mortgages ⁴	2,216	852	810	56	–	3,934
Infrastructure loans	–	123	60	1,208	155	1,546
At 31 December 2022	4,363	9,999	10,471	5,939	516	31,288

1 Includes unrated holdings of £108 million.

2 The £4,292 million total shareholder exposure to bank debt comprised £3,345 million senior debt and £947 million subordinated debt.

3 Includes £686 million reported as local authority loans and £107 million reported as loans guaranteed by export credit agencies and supranationals in the summary table on page 87.

4 The credit ratings attributed to equity release mortgages are based on the ratings assigned to the internal securitised loan notes.

Additional Capital Disclosures

PGH plc Solvency II Surplus

The estimated PGH plc surplus at 30 June 2023 is £3.9 billion (31 December 2022: £4.5 billion).

	30 June 2023 Estimated	31 December 2022
	£bn	£bn
Own Funds	10.3	11.1
SCR	(6.4)	(6.6)
Surplus	3.9	4.5

The Eligible Own Funds reflects a dynamic recalculation of TMTP. Had this not been performed, the surplus would have been £4 million lower.

Composition of Own Funds

Own Funds items are classified into different Tiers based on the features of the specific items and the extent to which they possess the following characteristics, with Tier 1 being the highest quality:

- availability to be called up on demand to fully absorb losses on a going-concern basis, as well as in the case of winding-up ('permanent availability'); and
- in the case of winding-up, the total amount that is available to absorb losses before repayment to the holder until all obligations to policyholders and other beneficiaries have been met ('subordination').

PGH plc's total Own Funds are analysed by Tier as follows:

	30 June 2023 Estimated	31 December 2022
	£bn	£bn
Tier 1 – Unrestricted	6.1	6.8
Tier 1 – Restricted	1.1	1.1
Tier 2	2.6	2.6
Tier 3	0.5	0.6
Total Own Funds	10.3	11.1

PGH plc's unrestricted Tier 1 capital accounts for 59% (31 December 2022: 61%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

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

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

Tier 3 items include the Tier 3 subordinated notes of £0.2 billion (31 December 2022: £0.2 billion) and the deferred tax asset of £0.3 billion (31 December 2022: £0.4 billion).

Breakdown of SCR

The Group operates one single PRA approved Internal Model covering all the Group entities, with the exception of the Irish entity, Standard Life International Designated Activity Company ('SLIDAC') and the acquired ReAssure businesses. SLIDAC and ReAssure businesses calculate their capital requirements in accordance with the Standard Formula. An analysis of the pre-diversified SCR of PGH plc is presented below:

	30 June 2023 Estimated		31 December 2022	
	Internal Model	ReAssure and SLIDAC Standard Formula	Internal Model	ReAssure and SLIDAC Standard Formula
	%	%	%	%
Longevity	15	11	15	17
Credit	18	19	17	19
Persistency	19	32	18	28
Interest rates	6	2	8	6
Operational	8	5	8	4
Swap spreads	2	–	2	–
Property	5	1	4	1
Other market risks	14	17	15	14
Other non-market risks	13	13	13	11
Total pre-diversified SCR	100	100	100	100

Minimum capital requirements

Under the Solvency II regulations, the Minimum Capital Requirement ('MCR') is the minimum amount of capital an insurer is required to hold below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations. For Groups this is referred to as the Minimum Consolidated Group SCR ('MGSCR').

The MCR is calculated according to a formula prescribed by the Solvency II regulations and is subject to a floor of 25% of the SCR or €4.0 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk. The MGSCR represents the sum of the MCRs of the underlying insurance companies.

The Eligible Own Funds to cover the MGSCR is subject to quantitative limits as shown below:

- the Eligible amounts of Tier 1 items should be at least 80% of the MGSCR; and
- the Eligible amounts of Tier 2 items shall not exceed 20% of the MGSCR.

PGH plc's MGSCR at 30 June 2023 is £2.1 billion (31 December 2022: £2.3 billion).

PGH plc's Eligible Own Funds to cover the MGSCR is £7.3 billion (31 December 2022: £8.2 billion) leaving an excess of Eligible Own Funds over MGSCR of £5.2 billion (31 December 2022: £5.9 billion), which transfers to an MGSCR coverage ratio of 349% (31 December 2022: 361%).

Alternative performance measures

The Group assesses its financial performance based on a number of measures. Some measures are management derived measures of historic or future financial performance, position or cash flows of the Group; which are not defined or specified in accordance with relevant financial reporting frameworks such as International Financial Reporting Standards ('IFRS') or Solvency II.

These measures are known as Alternative Performance Measures ('APMs').

APMs are disclosed to provide stakeholders with further helpful information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to IFRS and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

A list of the APMs used in our results as well as their definitions, why they are used and, if applicable, how they can be reconciled to the nearest equivalent GAAP measure is provided below. Further discussion of these measures can be found in the business review from page 8.

APM	Definition	Why this measure is used	Reconciliation to financial statements
Assets under administration	The Group's Assets under Administration ('AUA') represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets. It includes assets recognised in the Group's IFRS statement of consolidated financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS statement of consolidated financial position to the Group's AUA is provided on page 88.
Fitch leverage ratio	The Fitch leverage ratio is calculated by Phoenix (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, non-controlling interests, contractual service margin ('CSM') (net of tax), policyholders' share of the estate and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's IFRS statement of consolidated financial position on pages 33 and 34 and the analysis of borrowings note on page 74.
Incremental long-term cash generation	Incremental long-term cash generation represents the operating companies' cash generation that is expected to arise in future years as a result of new business transacted in the current period within the Group's UK Open and Europe segments. It excludes any costs associated with the acquisition of the new business.	This measure provides an indication of the Group's performance in delivering new business growth to offset the impact of run-off of the Group's Heritage business and to bring sustainability to future cash generation.	Incremental long-term cash generation is not directly reconcilable to the financial statements as it relates to cash generation expected to arise in the future.
Life Company Free Surplus	The Solvency II surplus of the Life Companies that is in excess of their Board approved capital according to their capital management policies.	This figure provides a view of the level of surplus capital in the Life Companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section on page 9 for further analysis of the solvency positions of the Life Companies.
Long-term Free Cash ('LTFC')	Long-term Free Cash ('LTFC') is comprised of long-term cash to emerge from in-force business, plus holding company cash, less an allowance for costs associated with in-flight mergers and acquisitions and the related transition activities, and a deduction for shareholder debt outstanding.	LTFC provides a measure of the Group's total long-term cash available for operating costs, interest, growth and shareholder returns. Increases in LTFC will be driven by sources of long-term cash i.e. new business and over-delivery of management actions. Decreases in LTFC will reflect the uses of cash at holding company level, including expenses, interest, investment in BPA and dividends.	The metric is not directly reconcilable to the financial statements as it includes a significant component relating to cash that is expected to emerge in the future. Holding company cash included within LTFC is consistent with the holding company cash and cash equivalents as disclosed in the cash section of the business review. Shareholder debt outstanding reflects the face value of the shareholder borrowings disclosed on page 74.

APM	Definition	Why this measure is used	Reconciliation to financial statements										
Net fund flows	Represents the aggregate net position of gross AUA inflows less gross outflows. It is an in-year movement in the Group's AUA.	Net fund flows provides a measure of the Group's ability to deliver new business growth.	Net fund flows is not directly reconcilable to the financial statements as it represents an in-year movement. However, a reconciliation from the Group's IFRS statement of consolidated financial position to the Group's AUA is provided on page 88.										
New business contribution	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure provides an assessment of the day one value arising on the writing of new business in the Open segment, and is stated after applicable taxation and acquisition costs.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement.										
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of consolidated cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, Group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS statement of consolidated cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on pages 7 to 8, and a breakdown of the Group's cash position by type of entity is provided in the additional life company asset disclosures section on page 86.										
Adjusted operating profit	Adjusted operating profit is a financial performance measure based on expected long-term investment returns. It is stated before tax and non-operating items including amortisation and impairments of intangibles, finance costs attributable to owners and other non-operating items which in the Director's view should be excluded by their nature or incidence to enable a full understanding of financial performance. Further details of the components of this measure and the assumptions inherent in the calculation of the long-term investment return are included in notes 4 and 5 in the interim financial statements.	This measure provides a more representative view of the Group's performance than the IFRS result after tax as it provides long-term performance information unaffected by short-term economic volatility and one-off items, and is stated net of policyholder finance charges and tax. It helps give stakeholders a better understanding of the underlying performance of the Group by identifying and analysing non-operating items.	A reconciliation of adjusted operating profit to the IFRS result before tax attributable to owners is included in the business review on page 57.										
IFRS adjusted shareholders' equity	IFRS adjusted shareholders' equity is calculated as IFRS Total equity attributable to owners of the parent plus the CSM, net of tax.	Adjusted shareholders' equity indicates the value generated by the Group, including the value held in the CSM for IFRS 17 contracts.	Adjusted shareholders' equity reconciles to the IFRS balance sheet as follows: <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;">FY22 £m</th> </tr> </thead> <tbody> <tr> <td>Total equity attributable to owners of the parent</td> <td style="text-align: right;">3,211</td> </tr> <tr> <td>Add: CSM</td> <td style="text-align: right;">2,594</td> </tr> <tr> <td>Less: Tax on CSM</td> <td style="text-align: right;">(648)</td> </tr> <tr> <td>Adjusted shareholders' equity</td> <td style="text-align: right;">5,157</td> </tr> </tbody> </table>		FY22 £m	Total equity attributable to owners of the parent	3,211	Add: CSM	2,594	Less: Tax on CSM	(648)	Adjusted shareholders' equity	5,157
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Total equity attributable to owners of the parent	3,211												
Add: CSM	2,594												
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Adjusted shareholders' equity	5,157												
Shareholder Capital Coverage Ratio	Represents total Eligible Own Funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR.	The unsupported with-profit funds and Group pension funds do not contribute to the Group Solvency II surplus. However, the inclusion of related Own Funds and SCR amounts dampens the implied Solvency II capital ratio. The Group therefore focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group.	Further details of the Shareholder Capital Coverage Ratio and its calculation are included in the business review on page 9.										

Additional information

Shareholder information

Annual General Meeting

Our Annual General Meeting ('AGM') was held on 4 May 2023 at 10.00am (BST).

The voting results for our 2023 AGM, including proxy votes and votes withheld are available on our website at www.thephoenixgroup.com

Shareholder services

Managing your shareholding

Our registrar, Computershare, maintains the Company's register of members. If you have any queries in respect of your shareholding, please contact them directly using the contact details set out below.

Registrar details

Computershare Investor Services PLC
The Pavilions,
Bridgwater Road,
Bristol,
BS99 6ZZ

Shareholder helpline number +44 (0) 370 702 0181

Fax number +44 (0) 370 703 6116

www.investorcentre.co.uk/contactus

Share price

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

Group financial calendar for 2023

2022 interim dividend

Ex-dividend date 28 September 2023

Record date 29 September 2023

Interim 2023 dividend payment date 23 October 2023

Additional information

Forward-looking statements

The 2023 Interim Report contains, and the Group may make other statements (verbal or otherwise) containing, forward looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

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

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

- domestic and global economic, political, social, environmental and business conditions;
- asset prices;
- market-related risks such as fluctuations in investment yields, interest rates and exchange rates, the potential for a sustained low-interest rate or high interest rate environment, and the performance of financial or credit markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, initiatives related to the financial crisis, the COVID-19 pandemic, climate change and the effect of the UK's version of the 'Solvency II' regulations requirements on the Group's capital maintenance requirements;
- the medium and long-term political, legal, social and economic effects of the COVID-19 pandemic and the UK's exit from the European Union;
- the direct and indirect consequences for European and global macroeconomic conditions of the Russia-Ukraine War and related or other geopolitical conflict;
- the impact of changing inflation rates (including high inflation) and/or deflation;
- information technology or data security breaches (including the Group being subject to cyber-attacks)
- the development of standards and interpretations including evolving practices in ESG and climate reporting with regard to the interpretation and application of accounting;
- the limitation of climate scenario analysis and the models that analyse them;
- lack of transparency and comparability of climate-related forward-looking methodologies;
- climate change and a transition to a low-carbon economy (including the risk that the Group may not achieve its targets);
- market competition;
- changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates);
- the timing, impact and other uncertainties of proposed or future acquisitions, disposals or combinations within relevant industries;
- risks associated with arrangements with third parties;
- inability of reinsurers to meet obligations or unavailability of reinsurance coverage; and
- the impact of changes in capital, and implementing changes in IFRS 17 or any other regulatory, solvency and/or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within the 2023 Interim Report. No representation is made that any of these statements will come to pass or that any future results will be achieved. As a result, you are cautioned not to place undue reliance on such forward-looking statements contained in this 2023 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements or data contained within the 2023 Interim Report or any other forward-looking statements or data it may make or publish.

The 2023 Interim Report has been prepared for the members of the Company and no one else. The Company, its Directors or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Nothing in the 2023 Interim Report is or should be construed as a profit forecast or estimate.

Caution about climate and ESG related disclosures

Climate and ESG disclosures use a greater number and level of judgements, assumptions and estimates, including with respect to the classification of climate-related activities, than the Group's reporting of historical financial information. These judgements, assumptions and estimates are highly likely to change over time, and, when coupled with the longer timeframes used in these disclosures, make any assessment of materiality inherently uncertain. In addition, the Group's climate risk analysis and net zero transition planning will continue to evolve and the data underlying the Group's analysis and strategy remain subject to change over time. As a result, the Group expects that certain climate and ESG disclosures made in the 2023 Interim Report are likely to be amended, updated, recalculated or restated in the future.

Additional information

Online resources

Reducing our environmental impact

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

Go online

www.thephoenixgroup.com

Investor relations

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

Go online

www.thephoenixgroup.com/investor-relations

News and updates

To stay up-to-date with Phoenix Group news and other changes to our site's content, you can sign up for e-mail alerts, which will notify you when content is added.

Go online

www.thephoenixgroup.com/site-services/e-mail-alerts.aspx

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