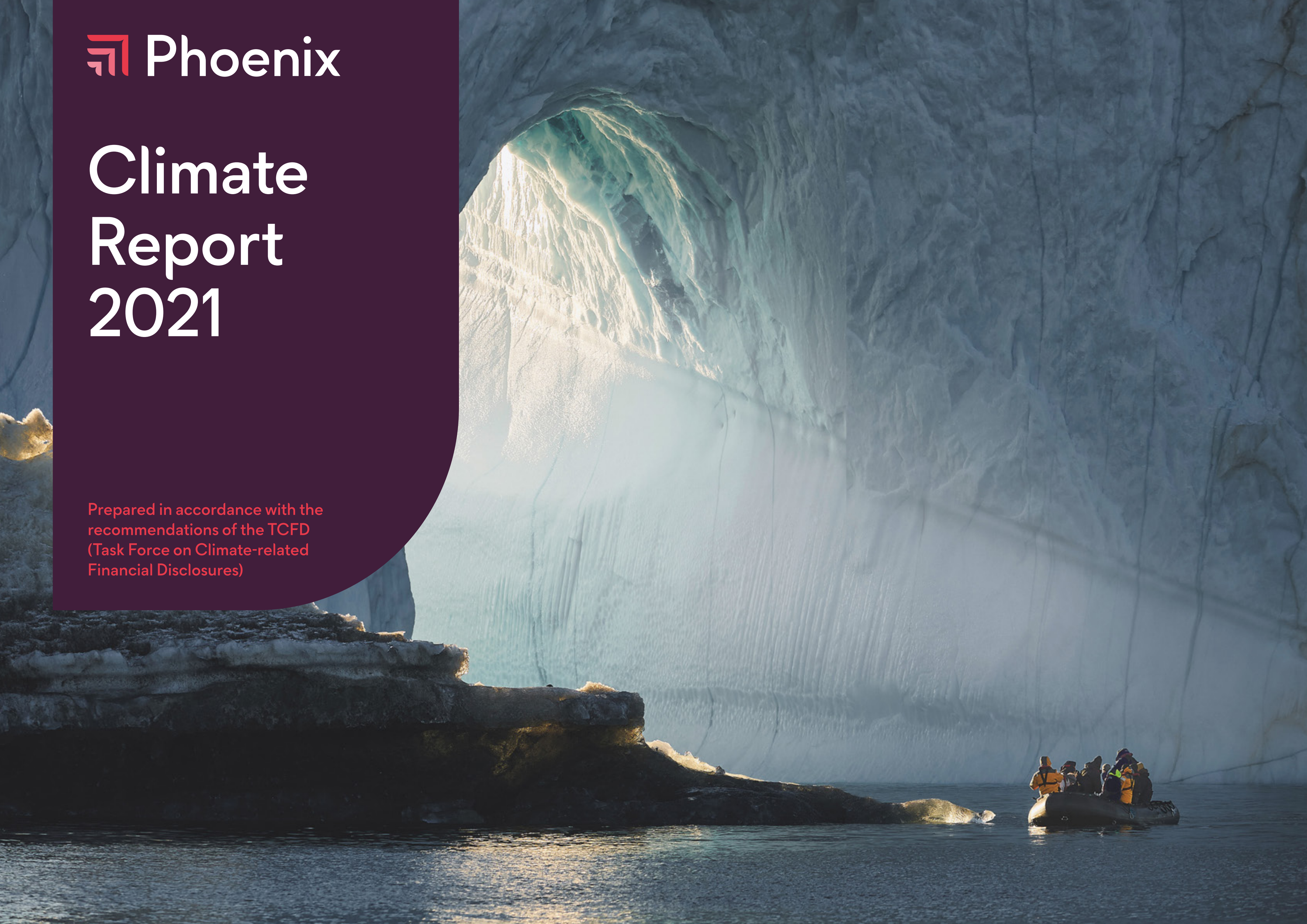
Climate Report 2021

Prepared in accordance with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures)



About this report

We are proud to present Phoenix Group's first standalone Climate Report, prepared in accordance with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD'). It aims to provide all stakeholders with a clear overview of the Group's progress to date towards identifying, assessing and managing the impacts of climate-related risks on our business and unlocking climate-related opportunities.

We are committed to the ongoing enhancement of our reporting to drive best practice.

Assurance

The Group has appointed Ernst & Young LLP ('EY') to provide limited independent assurance over selected climate-related disclosures content within this report marked with ^ as at and for the year ended 31 December 2021. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements ('ISAE') 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. A limited assurance opinion was issued and is available on page 51 of this report.

Supporting information

- Find out more on our website
- Find out more in our Annual Report and Accounts
- Find out more in our Sustainability Report
- Please see the glossary for an explanation of key terms used throughout this report.

In this report

Our position on climate change

The science is clear

- The ten warmest years on record have occurred since 2005, directly linked to an increase in atmospheric greenhouse gases ('GHGs') driven primarily by the extensive burning of fossil fuels and other industrial processes.[1]
- The world needs to support the principles of the Paris Agreement and the goal to hold global warming below 2.0°C compared to pre-industrial levels and to pursue efforts towards limiting it to 1.5°C.
- The current trajectory of temperature increases points to global warming of 2.7°C above pre-industrial levels.[2]

Wide-ranging, transformative and accelerated action is needed

- It is estimated that around £2.7 trillion of investment will be required over the next 15 years to meet the UK's net zero commitment. The insurance industry has the potential to finance up to a third of this[3]
- Sustainable policy reform is needed to incentivise the private sector to invest in low carbon innovation and technologies.
- Civil society and communities have a critical role to play in shifting behaviour and holding decision makers to account.
- There is a moral and financial imperative to act – to maximise opportunity and minimise risk for all stakeholders.

Phoenix is committed to action. We will:

Invest in the future

- Design our portfolios to tilt away from companies that are vulnerable to climate related risks and towards leaders in the transition.
- Use active stewardship to encourage firms we invest in to act.
- Help finance the transition by investing in climate solutions.

Lead by example

- Adopt the highest best practice standards across our operational and supply chain activities and lead by example for the stakeholders we engage with.

Engage to multiply our impact

- Actively develop new market approaches and opportunities in collaboration with the industry and other stakeholders.
- Advocate for the implementation of climate and energy policy and regulation to help unlock investment at scale.
- Engage our c. 13 million customers and c. 8,000 employees on the role they can play in delivering net zero.

1. IPCC Report: Climate Change 2021: The Physical Science Basis
2. www.climateactiontracker.org
3. ABI Climate Change Roadmap: https://www.abi.org.uk/globalassets/files/publications/public/climate-change/abi-climate-roadmap.pdf

Our purpose and climate ambition

We are a purpose-led organisation, aiming to help people secure a life of possibilities. We fulfil our purpose by providing people with the right guidance and products at the right time, to support the right decisions. We are committed to meeting our customers' needs through innovative product offerings and fund solutions and engaging them in their financial futures.

Underlying this purpose is a key societal responsibility to address the current climate emergency and play a leading role in supporting the transition to a net zero economy.

Our ambition is to be a net zero business by 2050.

To deliver this ambition, we have announced interim targets

2025

25% reduction in carbon intensity of listed equity and credit assets[1]

Net zero across our operations

2030

At least 50% reduction in carbon intensity of all investment assets[1]

50% reduction in carbon intensity of our supply chain

2050

Net zero across our business

1. Where Phoenix can exercise control and influence

Our climate action model

To deliver our 2050 net zero ambition, we have developed a climate action model.

This will be the framework we will use to develop and deliver our net zero transition plan. A key component of the model is our climate strategy which is based on three priorities of investing for the future, leading by example and engaging to multiply our impact.

These are anchored by the strength of our governance and risk management frameworks, scenario analysis and the ongoing investment in our people capabilities, climate data and technology platforms.

We are committed to setting clear targets and transparently reporting on our progress.

Our purpose

Helping people secure a life of possibilities

Our climate ambition

To be a net zero business by 2050

Playing a key role in delivering a net zero economy by decarbonising our investments, operational activities and supply chain and maximising value to shareholders, investors and other stakeholders by investing in the growing sectors and companies of the future.

Governance

Read more on page 10

Risk management

Read more on page 33

Scenario analysis, people capability, data and technology

Read more on page 25

Invest

- **Decarbonising our investment portfolio:** Transforming our portfolio to increase net zero alignment.
- **Effective stewardship of our assets:** Working with investees and asset managers to drive emission reductions.
- **Investing in climate solutions:** Investing in the growing companies and sectors of the future.

Read more on page 18

Lead

- **Reducing our direct emissions** by decarbonising our operations.
- **Reducing our wider emissions** by working with all suppliers that support our climate ambition and requiring all to have carbon reduction targets.

Read more on page 21

Engage

- **Working collaboratively with partners** to deliver cross-sector change and thought leadership.
- **Engaging our customers and employees** on the role they can play in delivering net zero.

Read more on page 23

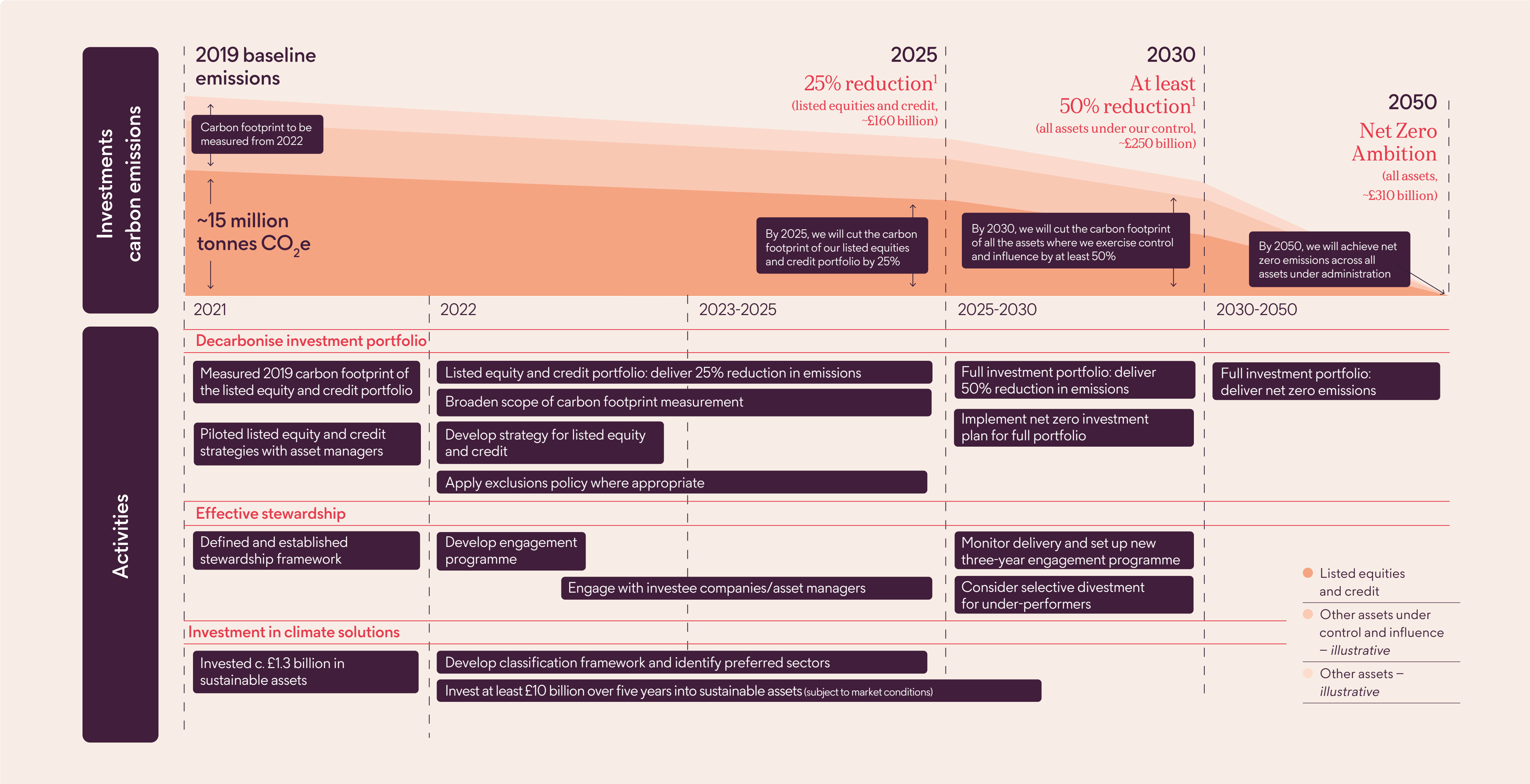
Metrics and targets

Read more on page 38

Set clear targets for cutting emissions and publish transparent data on our performance against them.

Our approach to investing for the future

Later this year, we will set out and publish our Net Zero Transition Plan – providing a clear pathway outlining how we will deliver on our climate action model and pivot our investment portfolio, operations, supply chain and entire business model to meet our targets. For this report we have provided a high level overview of the Investing for the future pillar of the plan, which is set out below.



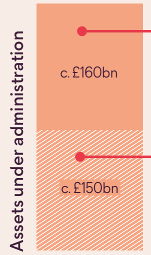
1. Where Phoenix can exercise control and influence

The case for climate action at Phoenix Group

Tackling climate change is a defining challenge for our business

Action must be taken to reduce our investments carbon footprint.

Achieving our net zero targets can help deliver material real world impact.



Our listed equities and credit portfolio has a carbon footprint of **c. 15 million tonnes of CO_2 per year** – equivalent to emissions of heating 5.4 million homes for a year.

We will measure the carbon footprint of our wider portfolio as measurement methods become established.

Failing to act creates significant risk for our business.

Embedding climate in all our decision making helps us manage the risk and seize the opportunity.

Phoenix area	Predominant Level 1 risk type	Transition risks
Phoenix Group	Strategic	High
Operations	Operational	Medium
Heritage	Insurance	Medium
Open	Insurance/ Market/ Customer	Medium
Investments	Market/Credit	High

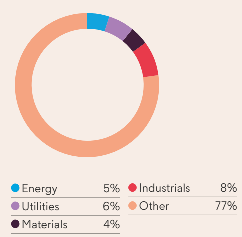
If we do not address the challenge of reducing our emissions, we face medium or high impacts across our business.

By taking action, we can help drive the transition to net zero and protect our customers' and shareholders' future

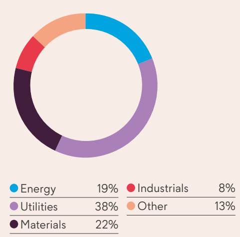
We can accelerate change by focusing on high-emitting sectors.

Supporting leaders in the transition and net zero plans will help deliver this change.

Sector exposure as % of listed assets AUA



Sector exposure as % of absolute emissions

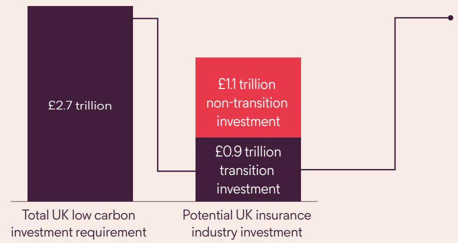


High transition risk sectors such as energy, utilities and materials make up less than a quarter of our listed assets, but account for almost 90% of financed emissions.

Net zero provides a huge opportunity for long-term investment.

Phoenix is increasing investment in net zero solutions. With the right market conditions we can increase this further.

Capital investment required for net zero, 2021-2035



With the right policy and regulatory changes, the insurance sector could finance one third of the £2.7 trillion low carbon investment required in the UK to 2035.

Source: ABI

Group Chief Executive's statement

> "I am proud to present Phoenix's first standalone climate report, which sets out our climate ambition and documents our progress on the path to embed the recommendations of the TCFD."

Andy Briggs
Group Chief Executive Officer

The imperative to act

There is no doubt about the moral imperative to act on climate change: unabated global warming will bear most heavily on those who are least responsible, and least able to protect themselves from its impacts. That's true both globally and within countries.

However, we are not just making climate action a core part of our strategy for moral reasons. We are doing it because of the rising expectations of our shareholders and regulators and because it is the right thing for our business and our customers.

As this report shows, we need to act because we are exposed to climate risks. That includes physical risks: the fact that many of the assets in which we are invested are at risk of climate change impacts, from increasing temperatures to rising sea levels. And it includes transition risks: as the net zero economic transformation accelerates, some companies and sectors will need to transform very rapidly, or they risk decreasing in size and profitability, or disappearing altogether. Preparing to address those risks is vital to ensuring our ongoing growth as a business, and to protecting the investments that we make on our customers' behalf.

But net zero is not – and cannot be – an agenda which is simply about minimising risk. It is also about maximising opportunity.

The net zero transition will unleash an unprecedented wave of investment in infrastructure and innovation – from industry to transport and electricity generation to insulation. Some businesses and sectors of the economy will grow at breakneck pace, and whole new sectors like low carbon hydrogen and direct air capture of CO_2 will be created. By identifying and investing in these, Phoenix Group can enhance its value to both shareholders and customers.

The effort needed

It is estimated that around £2.7 trillion of investment will be required over the next 15 years to meet the UK's net zero commitment. The insurance industry has the potential to finance up to a third of this and with c. £310 billion of assets under administration, Phoenix stands ready to make its contribution to these efforts in collaboration with others.

The work we do at a corporate level must be complemented by government action and we will be strongly advocating for the implementation of sustainable climate and energy policy and supportive financial regulations.

And we need societal change – from the way we heat our homes, to the way we travel, to what we consume. We will be working with our customers and our communities to support these sustainable changes.

At the COP26 climate summit, the UK along with 140 countries promised to end and reverse deforestation by 2030. This is a momentous step, recognising the critical role of forests to mitigate against climate change. In 2021, our Group signed up as a member of the Taskforce on Nature-Related Financial Disclosures ('TNFD') and pledged our support to the Get Nature Positive Campaign. We will be using these forums to collaborate and further our understanding of biodiversity risk and how its interconnected relationship with climate will help inform our strategy.

A vision of the future

This report, and our wider sustainability strategy, contain important and challenging targets: cutting emissions from our portfolio by at least 50% by 2030[1] and to net zero by 2050; cutting emissions from our supply chain by 50% by 2030; and making our own operations net zero by 2025. We have elevated the importance of delivering these targets through strengthened linkage with executive remuneration. But dry numbers do not show the extent to which net zero will transform the nature of our business.

If we are successful in designing and implementing a net zero transition strategy, and in effectively managing our climate risks, our business will look very different. Our customers will understand the environmental impacts of their investments and we will be making it easy for them to manage these. We will be even more attractive to investors, who will want to work with us to aid them in their own net zero journeys. Our investment portfolio will be transformed away from CO_2 intensive activities, and towards new and growing sectors of the economy which are helping to eliminate emissions. And our employees will be more engaged in the work of the Group, and have tools which enable them to live and work in a zero carbon way.

By doing that, we can not only be a net zero company; we can be more profitable, more stable, and more resilient. But what if we do not act? For Phoenix, it will mean risking lower profitability and fundamental instability to our business. Globally, it will mean runaway climate change leading to a series of economic shocks to go with definitive environmental catastrophe and pronounced social inequality.

This decade is critical. We all need to act with urgency and at scale to halt the impact and deliver the transformation needed.

Andy Briggs

Andy Briggs
Group Chief Executive Officer

1. Where Phoenix can exercise control and influence

Timeline of climate action

2020

- Supported TCFD framework.
- First TCFD disclosure published.
- Established a TCFD Implementation Programme co-sponsored by the Group CFO and CRO.
- Establishment of Responsible Investment Philosophy.
- Committed to becoming operationally net zero by 2025.

- Committed to be a net zero business by 2050.

Signatory of:

- Signatory of the PRI.

2021

- Signatory of Climate Action 100+.
- Published 2nd TCFD report.

- Became member of Net Zero Asset Owners Alliance.
- Joined the Glasgow Financial Alliance for Net Zero.
- Published open letter to financial partners, including asset management partners.
- First insurer to publish an open letter on ESG to 1,500 suppliers.

- Complete Round I of the Bank of England's CBES exercise.

- First life insurer to sign up to PCAF UK.
- Sustainable Markets Initiative Insurance Supply Chain Pledge.
- Hosted major event in run up to COP26 'The Power of Pensions: Accelerating action towards net zero'.
- Strategic partner for Green Horizon Summit at COP26.
- Supported TNFD and Get Nature Positive Campaign.

- 'B' CDP grade awarded.

2021 highlights

£220m

in renewable energy production projects

£50m

invested to deliver 1,000 energy efficient homes in Wales

Exclusion thresholds set

thermal coal, oil sands, arctic drilling where over 20% of revenue

34%

reduction in operational emissions intensity from 2020^

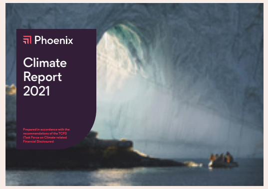
84%

of key suppliers[1] engaged[2] on climate change^

Interim investment targets

set for 2025 and 2030

2022 and beyond



- Publish first standalone Climate report (in line with recommendations of the TCFD).
- Complete Round II of the Bank of England's CBES exercise.
- Roll out decarbonisation portfolio design strategy to listed equity and credit.

- Increase stewardship activity in collaboration with asset managers and asset owners.
- Increase sustainable investments, with focus on climate solutions.
- Establish the baseline of our supply chain emissions and roll out decarbonisation plan.
- Further develop metrics framework.

- Develop Science Based Targets and validate with the SBTi.
- Develop and publish net zero transition plan.
- Aim to meet all interim and 2050 net zero targets.

1. Key suppliers include: strategic (those that we work closely with due to the strategic nature of the services they provide), critical (suppliers where the goods or services provided is limited in the market and barriers to change are complex) and financially important with spend ≥£1m (suppliers which are numerous but where value to Phoenix is significant).
2. Engaged is defined as having completed Phoenix Sustainable Supply Chain Climate Change Standards gap analysis, outlining their progress on their climate change strategy including carbon reduction targets and procurement of renewable energy and or participated in the CDP suppliers survey.

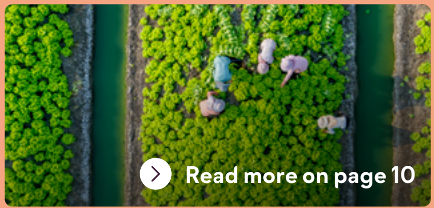
^ Data assured by EY. See page 51 for EY assurance statement.

Progress and key future priorities against the TCFD recommendations

Phoenix publicly committed to support the Financial Stability Board's TCFD recommendations in 2020. Since then we have made significant progress in assessing climate-related risks and opportunities, developing our climate strategy, establishing our governance and risk management processes, as well as developing our metrics and targets framework.

This report includes disclosures intended to align with the TCFD recommendations. As reflected in the table below, we have made progress in a number of areas during 2021 and have clearly identified our priorities to ensure future focus.

Governance


Read more on page 10

Key areas of progress in 2021

- Enhanced the Group's governance framework to embed oversight and management of climate risk and opportunities.
- Approved the Group's 2021 Sustainability Strategy and related KPIs and targets, including climate-related targets.
- Positively concluded an effectiveness review of the Board Sustainability Committee, including the Chapter Zero Board Readiness Check.
- Strengthened our remuneration framework by integrating climate targets.
- Continued upskilling of the Board, Executive and the wider Group.

Looking ahead to the future

- Address any Board and Management skills gaps through further education and training sessions.
- Implement a Group-wide climate education programme.
- Ongoing enhancement of the governance framework to ensure it continues to be future fit.
- Continue Board and Board Committee oversight in particular related to progress against net zero targets.

Strategy


Read more on page 16

Key areas of progress in 2021

- Completed a strategic assessment of climate-related risks and opportunities to help inform strategy.
- Completed pilots on different approaches to decarbonise our listed equity and credit portfolio in collaboration with certain strategic asset management partners to support investment transition plan.
- Set interim targets to reduce carbon emission intensity for the investment portfolio.
- Established a Stewardship function.
- Procured market-leading ESG data.
- Successfully completed Bank of England's Climate Biennial Exploratory Scenario ('CBES') exercise.
- Developed climate scenario methodology and modelling capabilities.

Looking ahead to the future

- Roll out of decarbonisation strategy for listed assets.
- Increase our engagement with investee companies as part of stewardship activities.
- Increase direct investments in sustainable opportunities.
- Further develop internal view of climate change risks, addressing known limitations and reflecting best practice.
- Broaden scenario analysis.
- Complete Round II of CBES exercise.
- Working with industry decision makers and government to advocate for sustainable climate and energy policy and supportive regulation.

Risk management


Read more on page 33

Key areas of progress in 2021

- Developed and approved Climate Risk Management and Climate Stress & Scenario Testing Framework documents.
- Developed climate risk reporting including key internal climate risk metrics and targets.
- Integrated climate risk considerations with the Group's Risk Management Framework ('RMF').
- Embedded climate into all Group risk policies.
- Approved climate change risk appetite statements.

Looking ahead to the future

- Enhance the data strategy and model for collecting and reporting on climate risk.
- Further develop the internal climate risk reporting, reflecting best practice and progress of net zero targets.
- Continue to enhance the risk management framework, including through scenario analysis.

Metrics and targets


Read more on page 38

Key areas of progress in 2021

- Baselined Scope 3 financed emissions for the listed assets sub-portfolio.
- Developed our metrics framework to include specific investment metrics.
- Exceeded target to reduce Scope 1 and 2 emissions from occupied premises per full time employee intensity by 20% on 2020 value.
- Procured a Data Management System to help track and manage operational impact.
- Engaged 84% of our key suppliers and partners on climate change.

Looking ahead to the future

- Measure Scope 3 financed emissions for the remaining asset classes.
- Further develop investment metrics with focus around opportunities and physical risk.
- Develop science based targets and submit for validation.
- Broaden scope of reporting to capture Scope 3 emissions of underlying companies.
- Develop operational targets related to waste and water as data becomes available.
- Measure Scope 3 supplier emissions and roll out supply chain decarbonisation strategy.

02 Governance

Robust governance ensures a foundation for accountability and action on climate change. The Group has a clear governance framework in place to oversee how it identifies, assesses and manages climate-related risks and opportunities.

This framework has continued to evolve to reflect the growing significance of climate change and the increasing sophistication in the way we manage its impact on our business.

Board oversight and engagement – a clear tone from the top

Key areas of progress

Further enhanced the Group's governance framework to embed oversight and management of climate risk and opportunities.

Approved the Group's 2021 Sustainability Strategy and related KPIs and targets, including climate-related targets to decarbonise our investment portfolio.

Positively concluded an effectiveness review of the Board Sustainability Committee following its first year in operation, including the Chapter Zero Board Readiness Check.

Strengthened our remuneration framework by integrating climate targets within the Executive Directors' Strategic Scorecard. See page 14 of this report for more detail.

Continued upskilling of the Board, Executive and the wider Group through tailored education sessions. See page 92 of the Group's Annual Report and Accounts for details of the Board's skills and expertise.

Phoenix Group Holdings plc Board Oversight

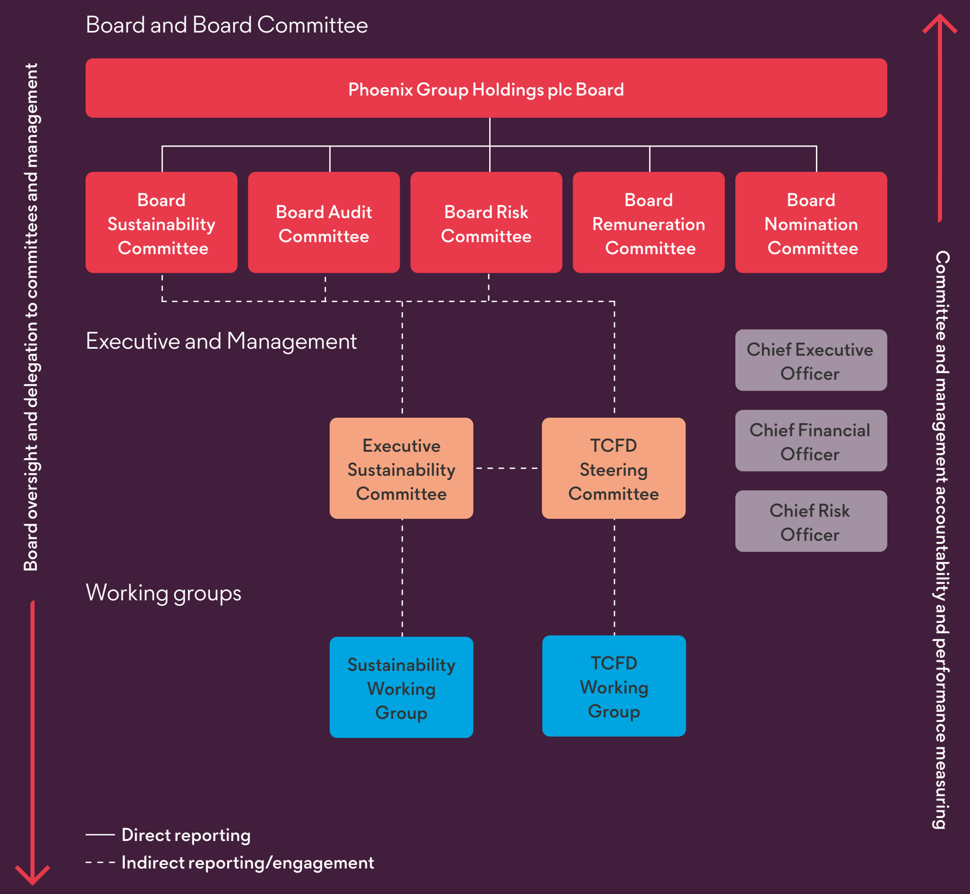
In accordance with its matters reserved, the Board of PGH plc ('Group Board') is responsible for the overall strategy of the Group, including the Group's sustainability strategy. The Group's strategic approach to climate change (including the management of climate related risks and opportunities) is therefore overseen by the Group Board, supported by the Board Sustainability Committee. The Group Board is also responsible for the Group's risk appetite, and setting risk appetite levels covering business and financial risks acceptable to Phoenix.

The Group Board recognises that climate impact is a significant matter to be addressed by Phoenix from the top down. As such, the consideration of climate change has been embedded within our governance framework and processes.

The Group Board has a robust Board Committee structure to assist in the discharge of its responsibilities, through delegations within approved terms of reference. Climate related responsibilities are allocated to certain committees dependent on their overall purpose and remit.

During 2021, the Group Board met formally eight times and considered climate change TCFD on seven occasions (including education sessions and updates on TCFD implementation and climate change from its Board Committee Chairs and management).

Our Climate Governance Framework



Cross Committee engagement – a shared responsibility

The following Board Committees have defined roles and responsibilities relating to the management, oversight and reporting of climate risk and opportunities.

The Board Sustainability Committee is responsible for:

- oversight of the Group's sustainability strategy, related activity and approach to Environmental, Social and Governance ('ESG') matters; including oversight of the Group's approach to climate risk and opportunity within its sustainability strategy.

During 2021, the Board Sustainability Committee completed its first 12 months in operation and monitored the embedding of Phoenix's climate strategy and TCFD implementation project. As part of its annual effectiveness review process, the Board Sustainability Committee engaged in an exercise to assess the directors' understanding and alignment with Phoenix's actions and approach to climate.

This assessment measured: climate risk management; approach to climate opportunities; understanding of stakeholder sentiment on climate change; understanding of, and action being taken in relation to, the Group's carbon footprint; and compliance with climate change related regulation. The results of the assessment were positive, indicating the Committee's confidence in management action on climate change.

The Board Audit Committee is responsible for:

- reviewing reporting in the annual report and accounts and such other material documents in respect of climate change and ESG matters for compliance with relevant regulations and legislation and standards set by the Board Sustainability Committee; and
- engagement with the Board Sustainability Committee and Board Risk Committee, as appropriate, to drive a consistent approach to the execution of the sustainability strategy across the Group and to ensure appropriate ESG reporting – this includes matters on climate change.

The Board Risk Committee is responsible for:

- consideration of climate change risk (a principal risk for Phoenix) as part of the bi-annual review of principal and emerging risks;
- oversight of the identification, assessment, management and reporting of climate-related risks within the Group Risk Management Framework (including oversight of the Group's climate-related stress and scenario testing);
- oversight of the Group's climate-related risk disclosures, coordinating with the Board Sustainability Committee and Board Audit Committee as appropriate; and
- reviewing the appropriateness of Phoenix's culture, and the extent to which the culture is embedded at all levels of the Group, including management of climate risk.

The Board Remuneration Committee is responsible for:

- engagement with the Board Sustainability Committee and Board Risk Committee , as appropriate, to drive a consistent approach to the execution of the sustainability strategy across the Group; and to ensure appropriate ESG elements (including climate-related targets) are included within the Group remuneration framework.

The Board Nomination Committee is responsible for:

- engagement with the Board Sustainability Committee, as appropriate, in particular in relation to Diversity and Inclusion matters, to drive a consistent approach to the execution of the sustainability strategy across the Group and to ensure appropriate ESG reporting on matters within the remit of the Committee.

Further details on our governance structure can be found in the Group's Annual Report on page 77

Connectivity across Our Governance Framework

Although defined roles and responsibilities are assigned to respective board committees, cross-committee membership and engagement between the committees drive consistency of climate strategy and risk management across the Group's governance framework.

This connectivity is further supported through the articulation of operating principles which govern the way in which boards and committees across the Group's entire governance framework (including at the Group's subsidiary level) interact and share information on matters relating to sustainability, including climate risk and opportunities.

The Board Sustainability Committee and Board Risk Committee met jointly during 2021 in accordance with such principles in respect of the Bank of England's Climate Biennial Exploratory Scenario ('CBES').

Key Board and Board Committee climate related actions, discussions and decisions

Education and training

During 2021, a programme of education and deep dive sessions were provided for the Group Board and Board Committees, covering the following areas:

Topic	Coverage
Climate Risk Education	• Current climate science, risks and opportunities; • Market, regulatory and investor expectations; • The insurance sector's response to climate risk; • Potential impact on Phoenix and relevance to our purpose; • The Group's TCFD progress and next steps; and • Board roles and responsibilities on climate risk.
Climate Risk Deep Dive (Joint Board Audit Committee and Board Risk Committee Deep Dive)	• Regulatory requirements for meeting TCFD; • Disclosure requirements and best practice; • Progress on scenario analysis work; • Overview of the metrics and targets framework; and • How TCFD relates to the roles of the committees and committee members.
Scenario Analysis and Climate Biennial Exploratory Scenario ('CBES') Education	• What is climate scenario analysis and Phoenix's journey so far; • The CBES exercise Phoenix is participating in; • Format and timescales to submission; • Regulatory expectations with regards to Governance and Board engagement; and • How the CBES exercise will support Phoenix's wider climate scenario work.
Climate Metrics and Targets Education	• The current climate-related metrics and targets landscape; • Approach to developing our climate-related metrics and targets framework; • Recommended metrics for FY21 disclosure and plans for FY22 disclosure; • The implementation plan; and • Target setting.

For the wider Group, we have launched Phoenix's Climate Hub, an internal platform to regularly share modules covering a range of climate-related questions and themes. This raises awareness and understanding of the impact of climate change on our business, communicates the Group's climate strategy and provides tools, resources and insights to help in our collective journey to tackle climate change. Over 2022, we will be working with an external partner to develop and deliver a more formal Group-wide climate training programme.

Outcome/Impact: The education and deep dive sessions highlighted in the table to the left have acted to enhance the Board and wider Group knowledge and understanding of climate change risk and opportunities; connected regulation and market practice; and strengthened the Group's approach to addressing these matters. This enhanced knowledge and understanding ensures robust oversight, challenge and support at the highest level of our governance structure.

Strategy

During 2021, the Group Board approved the 2021 Phoenix Group Holdings plc Sustainability Strategy. The strategy was recommended for approval by the Group Board following review by the Board Sustainability Committee. This strategy included the Group's approach to reaching net zero and action in relation to climate change, with the goal of a more climate-aligned investment portfolio.

Outcome/Impact: Approval of the Sustainability Strategy drove management action to be taken in relation to climate risk and opportunities, including the development of interim targets and a framework for decarbonising our investment portfolio; the creation of a stewardship policy; and collaborative engagement at events such as COP26.

Risk management and controls

During 2021, the Group Board Risk Committee approved the Group's Frameworks for Managing Climate Change Risk, including a Climate Risk Management Framework and Climate Stress Testing Framework.

Outcome/Impact: The approval of these frameworks will enable a holistic view of the Group's management of climate change risk and integration within the Group's Risk Management Framework and also define the roles, responsibilities and governance in place to assess and manage climate change risk.

In addition, the approval of the frameworks will ensure a clear understanding of how climate change stress testing will consider: the most material (transition and physical) risks to the Group's strategy and business model (and the potential implications on capital, liquidity and cash flow); outcomes relating to varying transition paths to a low-carbon economy; management actions to mitigate financial risks; short-term and long-term related risks; and the assessment, analysis and validation of climate change stress test outputs.

Reporting

The Group Board reviewed and approved the Phoenix Group Holdings plc YE20 Sustainability Report; ESG Report; and TCFD Report within the Annual Report and Accounts, ensuring transparent and meaningful external reporting. The Board was supported by the Board Audit Committee and Board Sustainability Committee in reviewing these reports, in accordance with their terms of reference. The Group Board also reviewed and approved the Group's CBES Report submission, following a review and recommendation for approval by the Board Risk Committee and Board Sustainability Committee.

Outcome/Impact: Approval of the YE20 reporting, as outlined above, has ensured regulatory compliance and transparent reporting about the Group's activities relating to climate change as part of the wider sustainability agenda.

Approval of the Group's CBES Report and the work undertaken in relation to this exercise has enabled Phoenix to baseline our carbon emissions; develop our understanding of the potential impact of climate change scenarios; and enhance our ability to develop strategies and management actions to address risks relating to climate change.

Regulatory Engagement

During 2021, the Group Board engaged with the Prudential Regulation Authority on matters including: Phoenix's preparedness for climate change regulatory and reporting requirements; and climate change risk management.

Outcome/Impact: The engagement above facilitated the Board's awareness of the regulator's view of Phoenix's progress on climate change risk management, ensuring that the Board was able to suitably oversee and challenge related management action, as appropriate.

Remuneration

During 2021 the following ESG related targets (alongside Diversity & Inclusion related targets not shown below (available in the PGH plc Directors' Remuneration Report)), approved by the Group Remuneration Committee, were included within the Group Executive Directors' strategic scorecard, accounting for 10% of the Group Chief Executive Officer's bonus and 8% of the Group Chief Financial Officer's bonus, in the following way:

Objective	Description	Base
ESG – Committing to a sustainable future	Reduce environmental impact	0.96 tonnes CO_2e/FTE
	Foster responsible investment	Set carbon reduction pathways
		>=60% ratio of shareholder investments in sustainable assets within the illiquid portfolio
	Delivering for our customers	Launch >= 3 initiatives to improve financial understanding
		Review workplace default solutions
		Launch digital literacy initiative
	Supporting our communities	>= 40% of colleagues engaged
	Work responsibly with our suppliers	>=75% engaged with Phoenix on their carbon management programme and commitments

Outcome/Impact: See the Group's Annual Report and Accounts, Directors' Remuneration Report on pages 108 to 136 for details of performance against the targets above.

Performance measures for the 2022 Long Term Incentive Plan ('LTIP') have been designed to incorporate an ESG metric relating to the Group's external commitments for decarbonisation of Phoenix's operations and investment portfolio. This ESG element of the 2022 LTIP has a 20% weighting (10% for decarbonisation of operations and 10% for decarbonisation of investment portfolio) to the long-term plan, linked to quantitative achievements against our decarbonisation commitments.

Targets for the 2022 LTIP will focus on progress towards our interim decarbonisation targets to:

- Achieve a reduction of 25% in the carbon emission intensity of our investments by 2025, to cover all listed equity and credit assets where we can exercise control and influence (c. £160bn).
- Achieve Net Zero carbon emissions in the Group's Operations by 2025 – the scope for this target, set using science-based techniques, is Scope 1 and 2 emissions from our occupied premises and Scope 3 emissions from business travel.

The 2022 LTIP outcomes will be set by reference to delivery as at the end of 2024.

Executive and Management's Role – driving action on climate strategy and risk management

Individual accountability

The Group's Chief Executive Officer, Andy Briggs, is the Executive Board Director responsible for implementation and delivery of the Group's overall strategy. The sustainability strategy forms part of the Group strategy, which includes climate change. In addition to this Group responsibility, Andy was also appointed as Chair of the Association of British Insurers new Board climate change committee in 2021 and will lead the co-ordination and drive collective focus on climate change across the insurance industry.

Individual responsibility for ensuring the appropriate identification, assessment, management and reporting of climate-related financial risks and opportunities that could impact the Group sits with the Group's Chief Financial Officer ('CFO') and the Group's Chief Risk Officer ('CRO'), both appointed as joint Senior Managers responsible for climate-related financial risk under the UK Prudential Regulation Authority's ('PRA') and Financial Conduct Authority's ('FCA') Senior Managers and Certification Regime.

As part of wider financial reporting responsibilities, the Group CFO is responsible for reporting metrics and targets and external disclosures; and as part of wider risk responsibilities, the Group CRO is responsible for ensuring that climate-related risks are incorporated into the existing risk management framework.

Management/Operational level groups

A number of key groups also have specific accountabilities for climate-related matters, as shown in the table opposite.

Committees/ Group	Responsibilities
Executive Sustainability Committee	• Ensures implementation of the Phoenix sustainability strategy and associated initiatives, including related to climate change. • Membership comprises key Executive Committee members, including sustainability pillar, risk and TCFD sponsors. The Committee's membership also comprises the Corporate Affairs and Investor Relations Director (Chair), Chief Sustainability Officer and ReAssure CEO. The Committee meets at least five times a year (it met on seven occasions in 2021) and supports the Board Sustainability Committee, providing updates on progress against strategy, KPIs and targets.
TCFD Steering Committee	• Oversees the TCFD implementation programme, including progress against the recommendations and the publication of the annual disclosure. Its broader aim is to ensure Phoenix has an integrated approach to managing climate-related risk and opportunities and a strategic approach to managing climate change. • Membership comprises key executive representatives from across the business including the CFO and CRO, the Chief Investment Officer, Chief Operating Officer, Director of Corporate Affairs and Investor Relations, Chief Sustainability Officer and Group Company Secretary. The group is chaired by the Head of TCFD Implementation and meets monthly. • During 2021, the TCFD Steering Committee received regular updates on the implementation of TCFD recommendations from the Group's TCFD Working Group.
TCFD Working Group	• Ensures the implementation and embedding of the recommendations of the TCFD. In addition, it is responsible for delivery of locally agreed climate related action; development and delivery of such actions in line with the Group's sustainability strategy; and consideration and recommendation of action on external influences relevant to sustainability challenges, including planned regulation and movements in industry practice. The working group also ensures appropriate internal and external communication of key TCFD related activities and escalates all relevant TCFD implementation related matters to the TCFD Steering Committee. • Membership comprises of key functional representatives from across the business including Risk, Strategy, Investment and Governance and meets weekly.
Sustainability Working Group	• Ensures day to day delivery of the Group's sustainability agenda and debates connected topical and emerging issues. The working group ensures that information provided to the Group Board Sustainability Committee and Executive Sustainability Committee is consistent with the approved Group Sustainability Strategy and aligned with relevant risk appetites. • Membership comprises of key functional representatives from across the business covering the areas of Customer, Investment, Environment, People, Communities, Suppliers, Risk, TCFD and Strategy and meets monthly.

Key future priorities

Address any skills gaps through the delivery of further Board and Management education sessions (considering evolving climate-related developments, impact on the Group's strategy, risk and governance and the implications for Directors' and Management's duties).

Further develop and implement a Group-wide climate change education programme including specific training for key functions and wider general training for the rest of the Group.

Ongoing enhancement of the governance framework and embedding of climate within decision making throughout the Group, ensuring our governance is future fit.

Continue Board and Board Committee oversight of climate change risk and opportunities, in particular related to progress against net zero targets relating to our operations, supply chain and investment portfolio.

03 Strategy

As the UK's largest long-term savings and retirement business, we have a strategically important role in supporting global efforts to transition to a net zero economy for the benefit of our shareholders, customers, society and all other stakeholders.

We have continued to understand and integrate climate-related impacts into the Group's strategic and financial planning decision making processes over the short, medium and longer term.

Priorities for our climate strategy

Key areas of progress

Completed a strategic assessment of climate-related risks and opportunities to help inform the development of our climate strategy.

Developed our climate scenario methodology and modelling capabilities.

Completed pilots on different approaches to decarbonise our listed equity and credit portfolio in collaboration with collaboration with certain strategic asset management partners to support our investment transition plan.

Set targets to reduce carbon emission intensity for the investment portfolio by 25% by 2025[1] and at least 50% by 2030[1].

Established a Stewardship function within our Sustainable Investments team.

Procured market-leading ESG data to feed into our proprietary investment platform.

Successfully completed Round I of the Bank of England's Climate Biennial Exploratory Scenario ('CBES') exercise.

During 2020, an exercise was undertaken to help identify and understand the climate-related risks and opportunities that could potentially materially impact the Group over the short, medium and long term. Details of this are included in the Risk Management section on page 33. This assessment of climate-related risks and opportunities has informed the development of our climate strategy in 2021.

We also strive to make a positive contribution towards the UN Sustainable Development Goals ('UN SDGs') when considering our strategy as we recognise the potential impact we have through our activities. We have identified six priority goals where we have an opportunity to make a difference through our climate strategy.

The three priorities of our climate strategy, the underlying risks or opportunities they aim to address and alignment with the UN SDGs are summarised below.

Priorities for our climate strategy

Our climate strategy focuses on three priorities and strives to make a positive contribution towards the UN SDGs.

Invest

Investing for the future by decarbonising our investment portfolio, being an effective steward of our customers' assets and investing in climate solutions.

Risk/Opportunity addressed:

- Climate risk exposures within investments
- Changing demand for products, funds and solutions
- Emerging government policy, regulatory & legal changes
- Reputational damage

9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 13 Climate action

Lead

Leading by example by adopting best practice strategy, decarbonising our operations and minimising emissions from our supply chain by requiring all suppliers to have a carbon reduction target.

Risk/Opportunity addressed:

- Disruptions to our business operations
- Reputational damage

13 Climate action; 14 Life below water; 15 Life on land

Engage

Engaging to multiply our impact by working collaboratively with partners to deliver cross-sector change and thought leadership, and engaging our customers and employees on the role they can play in delivering net zero.

Risk/Opportunity addressed:

- Emerging government policy, regulatory & legal changes
- Reputational damage

13 Climate action; 17 Partnerships for the goals

1. The 2025 target covers listed equity and credit where we have control and influence (c.£160bn) and the 2030 target covers all assets where we have control and influence (c.£250bn)

Priorities for our climate strategy continued

Invest

Our customers and shareholders trust us to reflect their priorities in how we invest. That means keeping their money safe and providing them with strong long-term financial returns, while using our scale to play our part in delivering a stable and sustainable future.

The scale of our investment portfolio means that it is the area of our business with both the biggest climate impact and the greatest exposure to climate related risks and opportunities. It also gives us the transformative power to allocate capital in a sustainable way.

We are committed to integrating climate related risks and opportunities into our investment strategy in three ways: decarbonising our portfolio; effective stewardship of our assets; and investment in climate solutions.

1 Decarbonising our portfolio

Approach

We aim to design a strategy for decarbonising our portfolio which maintains the existing risk-return profile while overlaying carbon reduction, exclusionary and other constraints which we expect will improve portfolio resilience and support long-term growth.

In addition, we support policy and regulatory changes which can accelerate delivery of low carbon investments, such as the proposed reforms to Solvency II.

That means that we expect our portfolios to retain exposure to all sectors. By financing the climate leaders of what might traditionally be considered high intensity sectors (but are key to a successful global transition) and increasing investment in the growing net zero sectors of the future, we can both help deliver emission reduction and secure stable growth for our customers and shareholders.

Quantitative analysis

Last year we completed a detailed review that explored methodologies to reduce portfolio emissions. We conducted a quantitative analysis of pilot portfolios with a few of our strategic asset management partners on the integration of our decarbonisation objectives within listed equity and credit portfolios. Scenario analysis was used in evaluating the findings of the investigation.

Our pilot analysis showed that incorporating decarbonisation objectives was aligned with our fiduciary duties to our policyholders and shareholders. We are reviewing portfolio mandates and expect to start integrating decarbonisation strategies into listed equity portfolios from 2022 onwards with listed credit to follow shortly thereafter.

Open letter to investment partners

In 2021 we issued an Open Letter to our investment partners, informing them about our commitment to becoming a leader in the net zero transition and seeking a collaborative approach in this endeavour. The letter set out the key areas of our ESG investment focus (including sustainable investments, climate and stewardship) and what we expect of our investment partners.

Looking forward, Phoenix will only partner with investment organisations that are similarly committed. We strongly believe that by fully integrating climate considerations into how we do business, we are collectively well positioned to drive change.

Read our open letter here

Priorities for our climate strategy continued

Invest

2 Effective stewardship of our assets

Approach

Phoenix Group embraces an 'engagement first' approach to support investee companies' action towards developing short, medium and long-term plans to transition to net zero and bring real world change.

While divesting from high carbon assets is the most straightforward way of cutting portfolio emissions, our approach is to use it as a last resort. This allows us to help drive real emission reductions rather than transferring ownership of assets to those who may have a less pro-active approach to delivering net zero.

This means that Phoenix Group will, where appropriate, stay invested in high emitting companies with the intention of shaping their business models through dialogue, voting and escalation strategies.

In addition, we support an ambitious, outcome oriented definition of engagement as defined in our 2021 Group-wide stewardship policy. Our asset management partners also work with investee companies to enable an orderly net zero transition, and we hold them accountable.

As a large asset owner, we recognise and take our stewardship responsibilities seriously and have committed to become signatories to the UK Stewardship Code in 2023.

We are currently developing our climate change engagement programme. This will span rolling three-year periods, starting in 2022. Dialogue with investee companies will be reviewed on an annual basis in connection with our periodic monitoring of portfolio decarbonisation goals and portfolio carbon footprinting. Priority is given to top emitting companies from the most material sectors in our corporate bond and equity portfolios, in particular those performing poorly on forward looking assessments such as temperature alignment scores, presence of accredited SBTs, indicators from the CA100+ Net Zero Framework and the Transition Pathway Initiative ('TPI').

Engagement strategy

Dialogue with Company representatives will take place through our strategic asset management partners and our direct participation in CA100+ or equivalent collaborative engagement on material sectors. Periodic dialogue with our asset managers will ensure agreement on target setting, assessment of progress by companies, coordination of expectations in case of overlapping engagements, and escalation strategies in case of lack of progress.

Additionally, through our selection and monitoring processes, we regularly assess the consideration of climate change risks and opportunities in integration and stewardship activities of our asset manager partners.

We also closely monitor the inclusion of climate expectations in their customised proxy voting policy and their voting on key climate change resolutions aligned with our engagement objectives. We believe proxy voting and engagement capabilities are vital for supporting the execution of our stewardship policy on our investment mandates.

Escalation

Going forward, progress towards tailored objectives by our focused list of companies will be regularly monitored through an internal tracking system. In case of insufficient progress against our objectives, we will consider escalation strategies such as writing letters to the Board, public statements, vote against management and as a last resort, divestment.

Publishing our exclusions policy

Where engagement is not possible or does not lead to change, we are committed to excluding assets that do not align with our climate and sustainability strategy. We have defined our exclusion policy in 2021 as part of integrating ESG considerations into the investment decision-making process.

Our approved exclusions policy, amongst other restrictions, screens out stocks that have more than 20% of revenues generated from thermal coal, arctic drilling and oil sands. It has resulted in portfolio names being earmarked for sale and works to complement the changes in portfolio design. Further, it helps to mitigate exposure to activities that could translate into material transition or 'stranded' assets risk.

Priorities for our climate strategy continued

Invest

3 Investment in Climate Solutions

£220m

Invested in renewable energy production projects

Low carbon projects

We are committed to investing in the low carbon projects and technologies which will enable net zero to be delivered. The opportunity is huge: it is estimated that around £2.7 trillion of investment will be required over the next 15 years to meet the UK's emission reduction goals, and that the insurance sector has the potential to fund a third of this investment[1].

In 2021, we invested c. £1.3 billion in sustainable assets, representing 67%^ of illiquid assets originated in sustainable opportunities for the shareholder portfolio (classification based on in-house framework). This included allocating £220 million to modern, renewable energy production projects across the UK with positive environmental impact.

We will invest at least £250 million of our policyholder assets into climate solutions in 2022. Further, our goal will be for at least 60% of new illiquid asset origination to be invested sustainably. Looking further ahead, subject to market conditions, we aim to invest £10 billion in direct investments in sustainable opportunities over the next five years supporting the key themes of green investment and 'levelling up'.

Changing demand for products, funds and solutions given evolving customer needs presents an array of investment opportunities.

We believe identifying and financing leading businesses and technologies is a critical part of the Group's strategy and aligns our portfolio objectives with a healthier climate for all.

New products and ESG Fund

Preserving customers' interest is at the heart of our values. We are focused on providing savings and insurance products that can enable them to direct finance to strategies that accelerate the transition to a net carbon economy. Hence, we view the development of climate aware products as both a priority and a key opportunity.

In our Workplace Savings business, we are in the process of transforming the default investment option. The changes aim to improve outcomes for customers by embedding sustainability and incorporating ESG factors within the strategies. These enhancements will affect 1.5 million customers and c. £15 billion assets under management.

Our framework for classifying assets as sustainable

To achieve a successful transition, finance will have to be targeted to key areas. Hence, we consider it particularly important to be clear what we define as sustainable investment and its forms. We have looked to leverage the emergence of new regulation, such as the EU taxonomy and other market standards to create our own new internal framework to classify what we deem to be sustainable. This includes themes such as: renewable energy, energy efficiency, clean transportation, green buildings, (environmental framework); affordable housing, affordable basic infrastructure/services, access to essential services (social framework).

It will enable us to deliver on our goal to increase shareholder and policyholder investments in sustainable assets in a targeted manner whilst also mitigating the risk of a perception of 'greenwashing'.

Climate solutions

'Climate solutions' are investments in economic activities that contribute substantially to climate change mitigation. These are solutions that reduce greenhouse gases by avoiding emissions and/or by sequestering carbon dioxide already in the atmosphere, or investments in climate change adaptation that contributes to enhancing adaptive capacity, strengthens resilience and reduces vulnerability to climate change.[2]

Investing in waste to energy

Waste recycling continues to be a key area of focus for the UK Government, which has set a maximum target of 10% of total waste to reach landfill by 2035. Currently, c. 40% of UK waste is flowing to landfill.

In 2021, we originated a £20 million loan to Viridor, a leading waste to energy operation in the UK. The 11 operational sites across the UK can process c. three million tonnes of waste volumes and deliver a net generation capacity of 260MW of electricity per annum.

This loan helps to expand the waste to energy investment portfolio in the UK and positively contributes to the UK waste to landfill target.

1. https://www.abi.org.uk/news/news-articles/2021/07/abi-climate-change-roadmap/
2. Source: NZAOA. https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf

^ Data assured by EY. See page 51 for EY assurance statement.

Priorities for our climate strategy continued

Lead

Leading by example allows us to drive change and positive impact and helps mitigate against a key climate-related risk of disruption to our business operations.

13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND

Leading by example in our operational activities

There is a great opportunity to support the transition to a net zero economy through our operational activities. We are focused on leading by example in the actions we take to achieve net zero in our own operations.

Setting ambitious targets

We have committed to making our operations net zero by 2025. This target covers Scope 1 and 2 emissions from our occupied premises and Scope 3 emissions from our business travel.

We are already making progress in managing the environmental impact of our own operations and have achieved a 34% reduction in carbon emissions intensity from occupied premises per FTE in 2021 against 2020. This was driven by the ongoing impacts of COVID-19 and continued hybrid working, building consolidation and improved energy efficiency.

Read more in the Metrics and targets section on page 38

Reducing our carbon emissions

Our carbon reduction strategy is based on the following principles which support our financial planning:

First eliminate

- Influence business decisions to prevent GHG emissions across the business (e.g. by looking at temperature settings and light levels within buildings)
- Identify premises rationalisation opportunities (as was completed with our London Head Office)
- Identify new business models available (e.g. hybrid ways of working)

Then reduce

- Real and relative (per FTE) carbon reduction
- Efficiency in operation and energy management (e.g. efficient lighting, building controls)
- Optimise approaches (technology upgrades, digital upgrades etc.)

Substitute where possible

- Lower carbon technologies (e.g. electric vehicle charging points, remote working technologies etc.)
- Reduce carbon intensity of energy used (e.g. on site equipment replacement such as replacing gas boilers with electric options and the PV roof installation in Wythall)
- Purchase energy and services with lower carbon intensity (e.g. renewable electricity contracts)

Compensate for what is left

- Compensate unavoidable residual emissions through carbon removal projects (e.g. the carbon offset program for gas consumption)
- Investigate land management value chain (e.g. tree planting/increased biodiversity)

Managing our waste

Waste management forms part of our wider resource management actions to help reduce our environmental impact. We follow a waste management hierarchy that adopts the following principles listed in order of preference:

- First avoid and reduce waste by identifying efficiencies in the overall products used and purchased for the group.
- Re-use waste by adopting processes to repair and donate resources.
- Recycle waste by adopting practices that encourage the procurement of more recyclable product alternatives.
- Recover energy through partnerships with waste contractors that use waste as energy.
- Dispose of or divert waste from landfill through our waste contractor agreements.

We see waste management as forming the disposal part of the resource cycle and are in the process of adopting processes that will also address the ways in which we source, use, re-use and dispose of materials across the Group. This is a complex undertaking and we are making inroads annually, eliminating single-use plastic and non-recyclable cups from our beverage vending areas in 2021.

34%

Reduction in operational emissions intensity from 2020

Priorities for our climate strategy continued

Lead

We are actively aiming to increase our recycling of waste from our operations and are utilising site-specific minimisation and management plans alongside circular economy initiatives to enhance our waste management. All waste from our core operational sites across the business continues to have 100%^ waste diverted from landfill. We launched our resource donation programme in 2021 that routinely gifts local charities and community groups with surplus IT equipment and furniture.

Enhancing our travel policy

We have further enhanced our travel policy in 2021 to align with more sustainable practices. Our policy encourages a modal shift in travel choices based on their potential carbon impact by promoting the Sustainable Travel Hierarchy. Most sustainable and at the top of the hierarchy is 'virtual first' which avoids any physical travel with air travel being the least sustainable method of transport at the bottom of the hierarchy.

The policy, and associated guidelines, also encourages the reduction to the number of employees travelling to the same meeting, combining trips, and accelerating the modal shift from air and car travel to public and shared transport (e.g. rail).

Conservation

We plan to complete biodiversity assessments for each of our core operational sites which will form part of the Group's wider biodiversity strategy being developed over the course of 2022. This will be alongside our work with the Taskforce on Nature-related Financial Disclosures ('TNFD').

Largest PV glass installation in Europe

We are in the process of installing one of the largest building integrated Photo-Voltaic glass installations in Europe in our Wythall Office.

The new roof glazing contributes to our net zero ambition through the generation of 52,300kWh of electricity every year – the equivalent of saving 27,144 kg/CO_2e emissions, equal to what 900 fully grown trees can absorb each year.

Leading by example in our supply chain

Setting ambitious targets and tracking emissions

Phoenix Group operates an outsourced business model and we work with around 1,500 partners and suppliers. The majority of our spend is with suppliers of fully managed outsourced services, IT, professional services and goods and services related to management of our premises.

We have set a 50% reduction target in supply chain emissions intensity by 2030. We have been encouraging our suppliers to submit their carbon emissions data via the Carbon Disclosure Project Supplier Survey, with over 81% of our key suppliers participating in the first year. We will use this data to determine our suppliers' emissions baseline.

Our supplier relationships are valued and we will continue to share knowledge, resources and tools to help our partners and suppliers implement ambitious sustainability plans and targets.

ESG supplier open letter

In December 2021, the Group published an open letter asking existing suppliers and partners to set clear sustainability ambitions and targets for their businesses and seek alignment with ours.

In addition to expecting partners and suppliers to implement a plan to tackle and report on modern slavery and meet best practice health and safety standards, we specifically asked for the adoption of SBTi carbon reduction targets. We have committed to give priority to those suppliers that share our ESG ambitions and have a carbon reduction target in place.

> We are engaging with our suppliers to encourage them to set SBTi targets and procure renewable energy. We continue to develop best practice climate strategy and require that of our suppliers.

Setting sustainable supply chain standards

We have set clear sustainable supply chain standards, integrating ESG requirements and in 2021, we also asked our key suppliers (which account for 80% of our spend) to meet our sustainable supply chain standards by the end of 2022. Overall, we are pleased that more than half of our key suppliers have made significant sustainability commitments and are striving to achieve these targets. Our key and high risk suppliers are required to commit to SBTI and/or Race to Zero targets as well as procure renewable energy.

80%

Key suppliers with carbon reduction target

ABI

Joined the ABI Sustainable Supply Chain Working Group

^ Data assured by EY. See page 51 for EY assurance statement.

Priorities for our climate strategy continued

Engage

Engagement is a key a part of how we intend to influence emerging government policy and regulatory and legal changes that could unlock low carbon investment and transition in key sectors and drive reputational impacts.

Adopting best practices

In 2021, we have entered into several collaborative partnerships which we believe are key to helping to develop our framework to understand and manage our exposure to climate risks. Through collaboration, we can amplify impact and promote transparency and best practice across the industry.

The Partnership for Carbon Accounting Financials (PCAF)
Phoenix Group was the first UK insurance company to join ('PCAF'), a global collaboration of financial institutions that work together to develop harmonised methods to assess and disclose the GHG emissions associated with their loan and investment portfolios. In calculating Phoenix's financed emissions, we seek to adhere to the PCAF framework insofar as possible.

U.N. – Convened Net-Zero Asset Owners Alliance
The NZAOA is a collaborative community of institutional investors, representing $10.4 trillion assets under management and this alliance supports the development of target setting approaches and trialling methodologies for alignment of net zero investment portfolios. Through this membership, we are supportive of the Race to Zero campaign.

Climate Action 100 +
We are collaborating with other asset owners to create best practice stewardship approaches to hold companies to account on climate change, and conducting coordinated engagement to increase the power of our influence.

SBTi
Market leading framework for developing and setting science based targets. We will be following SBTi guidance when developing our science-based targets, giving confidence that Phoenix's targets are consistent with the goals of the Paris Agreement.

Engaging with industry decision makers

We support active dialogue with policymakers either directly or through associations.

Green Horizon Summit at COP26
Phoenix had a significant presence in Glasgow during the conference to demonstrate our intention to proactively lead and engage in the debate. We were delighted to be a strategic partner of the Green Horizon Summit at COP26 hosted by the Green Finance Institute and City of London Corporation, bringing together over 200 senior speakers from across the globe to discuss how we can mobilise private capital towards a climate-resilient, nature-positive economy.

Glasgow Financial Alliance for Net Zero ('GFANZ')
Phoenix is a member of the Glasgow Financial Alliance for Net Zero. GFANZ announced during COP26 that $130tn of funding from members is available to meet net zero.

Institutional Investors Group on Climate Change ('IIGCC')
We are members of the IIGCC, a collaborative body supporting investors on their decarbonisation journey. We are represented on its Net Zero Stewardship working group which helps to integrate climate change considerations in engagement and voting practices by institutional investors.

Sustainable Markets Initiative
Phoenix is also a member of the Insurance Task Force as part of the Sustainable Markets Initiative. The aim of this group is to drive progress and accelerate the pace of industry transition towards a more resilient and sustainable future, putting nature, people and planet at the heart of global value creation.

Priorities for our climate strategy continued

Engage

Engaging with Government

Where appropriate, we will work directly with government to secure policy and regulatory frameworks which can drive the investment needed in net zero products, services and sectors.

In November 2021, Phoenix was involved in the Government's investment roundtable, held jointly by the Prime Minister and Chancellor. The aim was to encourage a greater proportion of life and pensions firms capital in long-term UK assets – from pioneering firms to infrastructure – enabling pensions savers to access better returns and support an innovative, greener future for the UK. Phoenix is supportive of these aims and is working to ensure that we can increase investment while maintaining strong policyholder protection.

We have also been working closely with HMT and the PRA to design and implement the reforms needed to Solvency II regulations. We believe in investing our customers' money in the most effective way, but some Solvency II regulations can act as a barrier to investment. This regime makes it difficult for our sector to support levelling-up and invest in assets that support the UK economy whilst delivering the best returns to customers.

Engaging our customers

As the vast majority of our customers keep their money in a default pension option, we are reviewing the default funds we offer to our customers to deliver sustainability by default. We have already made the default fund for any new workplace pension scheme our Sustainable Multi-Asset default.

We announced our partnership with Make My Money Matter in 2021 and pledged to support the campaign to build a better future and ensure everyone has a pension they can be proud of.

From 2022, we will increasingly play a thought-leadership role in the sector – working to identify barriers to net zero investment and unleash the sector's capital to deliver both decarbonisation and long-term growth.

Engaging our employees

In 2021, we launched our Environmental Network and Champions Group which aims to engage and empower colleagues on positive environmental behaviour. During the year, we also held a number of 'meet the experts' sessions which were live presentations led by subject matter experts in the business, to help raise awareness of climate and sustainability issues. In December we held a workshop on leading with a sustainable purpose for the senior leadership team supported by the Cambridge Institute for Sustainability Leadership. This helped deepen knowledge on global issues and trends including climate and encouraged thinking and collaboration on driving further activity within the Group.

We were pleased to launch Phoenix's Climate Hub in January 2022 which is an intranet based platform aiming to increase understanding of climate change impacts, communicate the Group's climate strategy and provide useful tools and resources. The educational modules include content exploring the science of climate, how it presents a risk and opportunity, deep dives on strategy and how one can make a day-to-day impact. In 2022, the Group is planning to develop a more formal climate education programme in collaboration with an external partner.

Developing the insurance sector's climate change roadmap with the ABI

The insurance sector has a central role in delivering the UK's net zero strategy. In his role as the chair of the Association of British Insurers Board Climate Change Committee, Phoenix Group's CEO Andy Briggs played a leading role in the development of its demanding and far-reaching climate change roadmap.

The roadmap has four pillars: 1. Meeting net zero by 2050; 2. Unleashing investment capacity; 3. Sustainable Industry Operations; and 4. Helping society adapt.

The ABI notes that ultimately a problem on the scale of climate change can only be tackled jointly between networks of sector peers acting in tandem with local and national policymakers and civil society.

Scenario analysis

Climate scenario analysis is a critical tool for testing the potential impact of a range of possible future climate pathways and helping inform actions to reduce climate-related risks on our business.

During 2021, we made significant progress in advancing our climate scenario analysis capabilities and have developed a comprehensive methodology and framework that combines in-house tools and models with a leading third-party climate risk model.

Delivery of our strategy in line with our published net zero commitments is expected to progressively minimise the impact of climate stress on Phoenix Group.

Climate biennial exploratory exercise

In 2021, Phoenix Group participated in the Bank of England's Climate Biennial Exploratory Scenario ('CBES') exercise, which is designed to assess the impact of climate change on the financial investments held by leading insurers and banks.

The industry results are expected to be published later in 2022. For this Climate report we have built on the work initially undertaken for CBES in order to develop an assessment more aligned to the Group view of climate change risks. Amongst the adjustments made to the CBES specification, we have:

- utilised the bottom-up assessment of climate change risks much more widely across our investment portfolio (rather than restricting its use to our larger non-financial counterparties, as required by CBES); and
- adjusted a number of the economic assumptions in order that they are more closely aligned with a Phoenix Group view of the potential impact of the climate change scenarios.

Process lessons learned

Although CBES will only complete later in 2022, we have already identified a number of lessons learned. These include the importance of completing the integration of the Group's asset management systems to allow consistent access to the asset data relevant to a climate change assessment and; in line with the wider long-term savings and retirement sector, to enhance our 'lookthrough' capabilities in connection with certain collective investment vehicles to enable the underlying investments to be identified and modelled.

Phoenix Group's approach to climate scenario analysis

The Group's approach to modelling climate-related risk is in line with its overall approach to stress & scenario testing. This is a well-developed process, a key feature of which is the feedback loop from the scenario results through to developing and refining management actions, as shown in the diagram below.

Scenario analysis continued

1. Review risk profile

For a long-term savings and retirement business such as Phoenix Group, our scenario analysis confirms the materiality of transition risks, in particular those derived from our investment portfolio.

To enhance our understanding of the impacts of different scenarios we have developed a twin-track approach to allow us to consider the potential impact of climate change on the investment portfolio (the most material area of climate change risk for the Group) at both the key industry sector levels and counterparty levels. We have used this approach to undertake the carbon footprinting of the investment portfolio and to also support the construction of a glidepath to achieve a net zero carbon position in line with our published commitments. The table below summarises the risks used to model the impact of climate change scenarios on the individual companies that comprise our investment portfolio.

Much of our scenario analysis to date has focused on transition risks. However, our investment portfolio and our own business (including customers and shareholders) are still exposed to the physical impacts of climate change and future scenario analysis is expected to provide additional insight into the potential for severe weather events disrupting both the value of our investments and business operations.

Relative materiality of risks and opportunities across Phoenix Group

In the table below, we have updated our assessment of the relative materiality of climate-related risks and opportunities across Phoenix Group's business areas in light of the impacts under the climate scenarios.

On the following pages, we provide more detail in relation to the results of the scenario analysis on the Group's investment portfolio covering market and credit risks.

Type of risk	Impacts modelled	Brief description	Impact on value of investment
Transition risk	Impacts on demand – demand destruction	The effect of reduced demand for emissions intensive commodities and goods, such as oil and internal combustion engine vehicles	The modelled transition and physical risks are combined to determine the estimated impact of the climate change scenario on the enterprise value of the counterparty over a time horizon of up to 30 years. This is then translated into a negative or positive impact on the Company's equity and bond valuations.
	Impacts on demand – demand creation	The effect of demand expansion for low-carbon goods, such as solar panels and electric vehicles	
	Direct carbon costs	The impact of carbon taxes, market-based carbon prices, or the costs of complying with other climate policies	
	Competition impacts	The effect of the differences in competitive position between companies, including the ability to pass through increased costs	
Physical risk	Short-term acute physical impacts	The estimated costs of physical damage caused by extreme weather events such as floods or tropical cyclones	
	Long-term chronic physical impacts	The effect of longer-term climate impacts, such as heatwaves and changes in precipitation on labour productivity and agricultural yields	

Phoenix area	Predominant Level 1 risk type	Physical risks	Transition risks
Phoenix Group	Strategic	N/A[2]	High
Operations	Operational	Medium	Medium
Heritage	Insurance	Medium	Medium
Open	Insurance/ Market/ Customer[1]	Low	Medium
Investments	Market/Credit	Low	High

Significance and relevance of climate impact	Low	Medium	High

1. Physical risks to the Group are covered under operations.
2. Although physical and transition risks lead to changes in mortality and persistency changes, the predominant risks are driven by market and customer risks in these business units.

Scenario analysis continued

2. Select and define scenario test

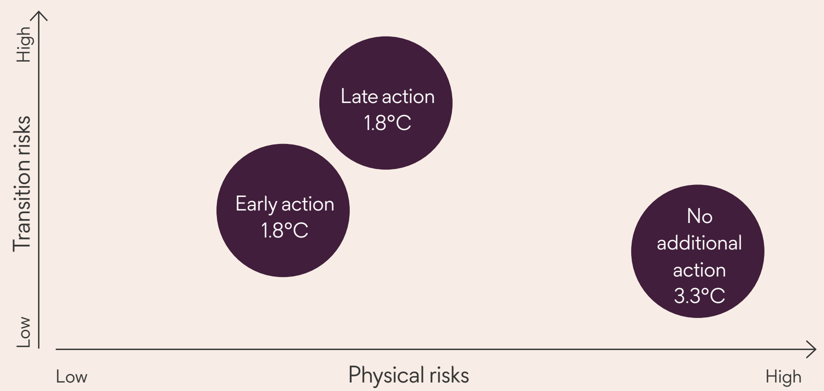
The second step in our approach is to select climate scenarios. Climate scenarios explore different possible climate change futures and pathways towards achieving long-term climate goals.

Currently we are using three scenarios provided by the Network for Greening the Financial System ('NGFS') to consider both transitional and physical risks over a 30-year time horizon.

This has been supplemented with additional analysis of the climate-related risks underpinning the Equity Release Mortgage ('ERM') portfolio, which we believe to be our largest exposure to physical risk currently.

The scenarios allowed for stresses across economic variables including adverse impacts on GDP (where transition to a low carbon economy results in broader economic slowdown), increasing yields to recognise the potential fall in value of fixed interest assets and falls in the value of real assets held in equity and property investments.

Climate scenarios and Transition and Physical impacts



Below is a high level overview of the key features of each scenario:

Early action <2.0°C

- Transition to net zero emissions starts in 2021.
- Carbon taxes and other policies intensifying consistently over the scenario horizon.
- Net zero greenhouse gas emissions achieved around 2050.

Late action <2.0°C

- The action to transition to net zero emissions is delayed until 2031.
- More sudden and substantial move to net zero and severe policy change required to compensate delayed start.
- Given the compressed transition timeline, material short-term macroeconomic disruption is expected.

No additional action

- No new climate policies are implemented beyond those already in place in 2020.
- Irreversible climate change and permanent impacts on living and working conditions and infrastructure across the globe.
- Long-term adverse impact on GDP.

These scenarios were chosen because they:

- Modelled a 30-year timespan to 2050, which is appropriate given the extended period over which climate change risks are expected to crystallise (although we note that some transition risks could crystallise over a much shorter timeframe, particularly if there is a strong global drive to meet the Paris Agreement carbon commitments).
- Cover a range of potential climate-related change outcomes including a 2°C or lower scenario and therefore are in line with the TCFD recommendations.
- Consider macroeconomic impacts of physical and transition risks with some granularity.

Scenario analysis continued

3. Analyse scenario

As part of our analysis, we have made some design choices to tailor the climate scenarios to the specific exercise. These relate to counterparty action, data and the modelling of insurance, litigation and regulatory risks.

Counterparty actions

We have not allowed for the estimated impacts of potential counterparty actions in response to the different climate change scenarios. This is a prudent design choice, given the wide range of uncertainties surrounding climate change analysis at this time. We will consider in the future whether to include this enhancement.

Data

The Group has sourced climate data from a number of leading data providers. Data was most readily available for investments in quoted counterparties. Obtaining 'look-through' data to identify the underlying investments in respect of some of our funds invested in collective investment vehicles; as well as data to support the physical risk analysis across all categories of investment was more challenging as this information has not been collected historically.

Non-quoted investments are a small, but increasing, proportion of our asset portfolio. More approximate methods have generally been used to estimate the climate change impact on these investments.

For our portfolio of Equity Release Mortgages (which comprise circa 1% of our investment portfolio), a bespoke climate change analysis has been undertaken to consider the physical and transition risks associated with these assets.

The main transition risk relates to the underlying residential properties which require investment in order to meet increased energy efficiency standards, whilst the main physical risks relate to flood risks and coastal erosion.

As the accessibility and reliability of climate data improves, this will enhance future iterations of our analysis.

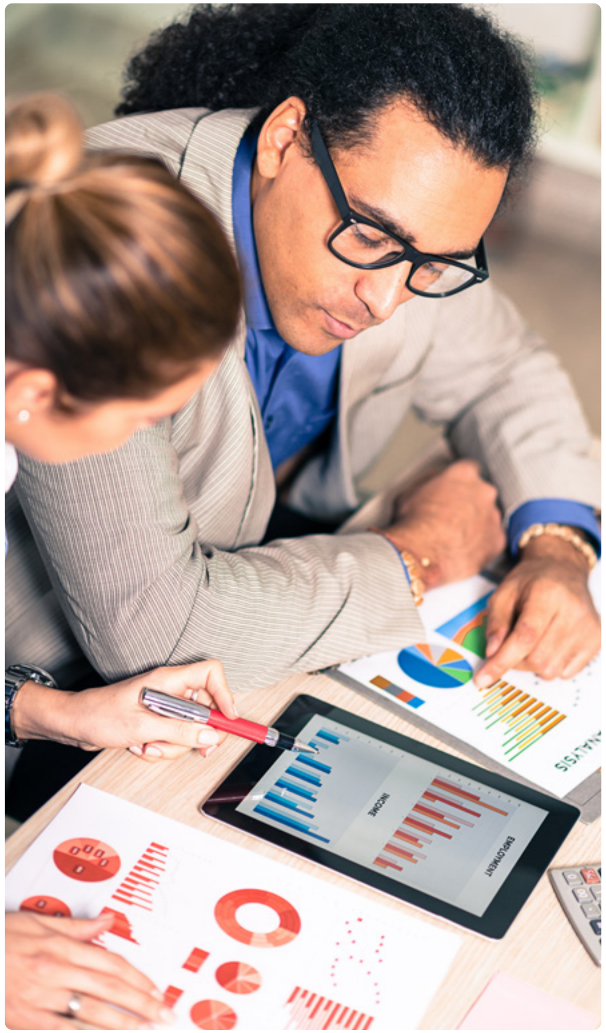
Modelling insurance risks

As an authorised insurer we have considered carefully how our insurance risks might be impacted by climate change. Our long-term savings and retirement business could be impacted by changes in mortality, longevity and morbidity as a result of the physical impacts of climate change. At this stage the evidence for the potential impact of these factors on the UK population (the Group's major market) is inconclusive and so we have chosen not to model the risk of changes in mortality/longevity/morbidity as part of the three climate change scenarios considered.

As research into the potential impact of climate change on UK mortality continues, we will review the position carefully. It should be noted that as a life and pensions provider, the Group is not directly exposed to physical risks via our insurance contracts other than the potential for increased mortality experience from climate event (although physical risks continue to be relevant to parts of our investment portfolio, as well as our own operations).

Modelling litigation and regulatory risks

Climate change-driven litigation and regulatory risks are also considered as part of our assessment of climate change risks. These risks are considered qualitatively and are not directly modelled in the scenario analysis, but form part of the assessment of climate change risks on our investment counterparties.



Scenario analysis continued

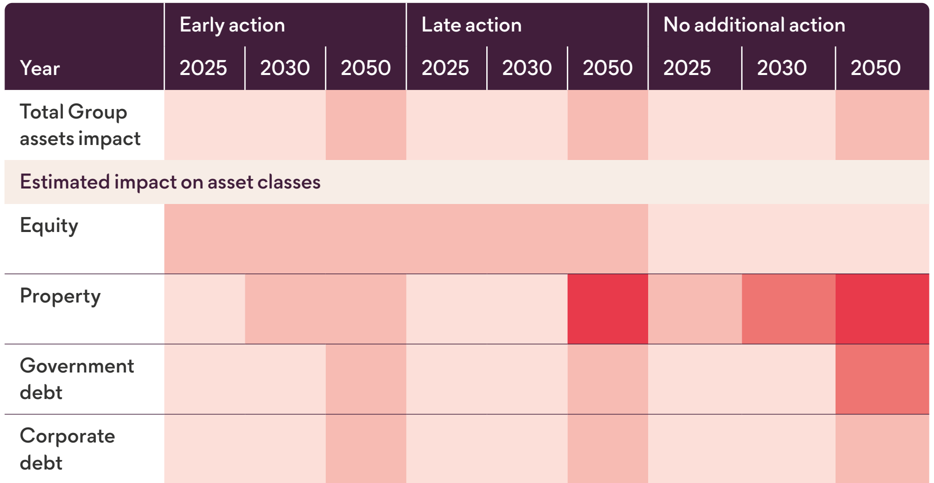
4. & 5. Validate and Report results

Scenario analysis was completed to assess the impact of climate change on our current investment portfolio, as well as particular sub-sets that may be more vulnerable to climate change.

The projected impact of the three scenarios (assuming no management actions to decarbonise or similar actions taken by individual investment counterparties to adapt to a net zero economy) shows that if Phoenix Group does not act to reduce risk, there will be a potential loss in investment asset value across all scenarios.

Details of the mitigating management actions are included on page 31

Indicative estimated Group asset impacts pre-management actions



Indicative climate change impact	Low	Moderate	Medium	High
Indicative estimated quantitative impact	<5%	5-10%	10-20%	>20%

Key: The scale shows the indicative estimated medium to longer-term climate impact on the Group's asset portfolio assuming a fixed year end 2020 Group balance sheet with the portfolio continuing in its current composition to 2050. It makes no allowance for the expected impact of the Group's decarbonisation strategy and other management actions to meet the Group's net zero targets. It also excludes similar actions taken by individual investment counterparties to adapt to a net zero economy.

The Group considers that the Early and Late Action scenarios are a more plausible set of outcomes than No Additional Action. Although of a similar magnitude, absolute impacts under the Early and Late scenarios are slightly larger than under the No Additional scenario, due to the increased transition risk under the former.

Key insights from detailed analysis

Results of the scenarios where climate policy action is taken (either early or late) highlights the Group's more material exposure in the nearer term being to transition risks.

The Group needs to align its investment portfolio to net zero, to mitigate exposure to transition risks and better position it to exploit new opportunities.

The investment portfolio has limited exposure to sectors and counterparties with direct physical risk such as property, energy, manufacturing and transport industries (see metrics and targets section).

Overall there will be winners and losers in certain sectors, so engagement and stewardship will be key tools to help distinguish between counterparties (see metrics and targets section).

Further scenario analysis will provide more detailed assessment of physical risk impacts on the ERM portfolio and additional insight into potential wider impacts of extreme weather events on all investments, our customers, staff and suppliers.

The Group climate change stresses by investment class show that property investments are most adversely impacted, particularly in the No Additional Action scenario. However, exposure for this asset class is relatively low so the overall impact on the Group position is limited.

As expected, the equity stresses for the two scenarios most impacted by transition risk (Early and Late) are higher than for fixed interest investments.

Scenario analysis continued

4. & 5. Validate and Report results continued

We have undertaken a detailed analysis of climate change impacts on both shareholder and policyholder assets, showing the differing impacts on the year end 2020 balance sheet position.

We will be developing our climate scenario analysis in 2022 to allow for the impact of future changes to our investment portfolio, as well as the run-off of existing business and investments and the increase in new business in line with the Group's growth strategy.

Details of the mitigating management actions are included on page 31

Indicative estimated shareholder and policyholder asset impacts pre-management actions

Shareholder and policyholder portfolios have exposures to different investment classes so it is informative to consider the potential impacts separately. Rather than presenting three separate tables (one for each scenario), the following table shows the worst potential impact under the three scenarios for each time point/asset class.

	Risk	Indicative impact			Indicative impact		
		2025	2030	2050	2025	2030	2050
		Shareholder assets			Policyholder assets		
Equity	Transition	N/A[1]	N/A	N/A			
	Physical	N/A	N/A	N/A			
Property	Transition	N/A	N/A	N/A			
	Physical	N/A	N/A	N/A			
Government debt	Transition						
	Physical						
Corporate debt	Transition						
	Physical						

Indicative climate change impact	Low	Moderate	Medium	High
Indicative estimated quantitative impact	<5%	5-10%	10-20%	>20%

Key: The scale shows the indicative estimated medium to longer-term climate impact on the Group's asset portfolio assuming a fixed year end 2020 Group balance sheet with the portfolio continuing in its current composition to 2050. It makes no allowance for the expected impact of the Group's decarbonisation strategy and other management actions to meet the Group's net zero targets. It also excludes similar actions taken by individual investment counterparties to adapt to a net zero economy.

1. No impact is shown for shareholder equities and property assets, as these investments are not held in the shareholder fund.

Key insights from detailed analysis

For unit-linked business, the investment risks are borne by our customers which means our transition to net zero is key to managing these.

For with-profits business, guarantees may provide some protection for our customers against these investment risks but our transition to net zero is still a key management strategy.

The majority of the Group's shareholder assets are fixed interest investments held within the Matching Adjustment portfolio which limits much of the impact of financial stress expected from transition risk due to a corresponding change in the liability valuation.

We anticipate that property assets could be subject to transition and physical risks, but there is likely to be limited impact on total policyholder asset values as the overall exposure is low (circa 2% of total AUA).

Scenario analysis continued

6. Feedback and mitigating management actions

Within the current analysis, no allowance is taken of the expected impact of management actions designed to limit the impact of climate change on the business.

It is expected that actions taken to deliver the Group's net zero targets will progressively reduce our exposure and significantly dampen the impact of climate change shocks on the asset portfolio.

The Group also has other actions in place to mitigate this risk.

Portfolio flexibility

A significant majority of our assets are listed on major exchanges, which supports our stewardship policy of active engagement with investee companies and also enables the Group to trade flexibly to reposition our investment portfolio where necessary. However, we also note that we have limited control over the assets backing our unit linked business, where policyholders determine investment choices from the range of underlying investment funds available to them. Activity is underway to increase the 'climate friendly' investment options available to policyholders.

Portfolio diversification

Our investment portfolios are well diversified across a number of dimensions (asset classes, economies, counterparties, etc.) which means we have a portfolio that is expected to be more stable in the face of changing investment conditions (compared to a more concentrated portfolio). The results of our scenario analysis work indicates that we do not have a concentration of investments in sectors of the economy that are considered to be high risk from a climate change perspective.

Shareholder assets in fixed interest investments

Although we are focused on the management of our total investment portfolio, shareholder assets represent under 20% of our total investment portfolio and are largely invested in investment grade fixed interest securities (corporate and sovereign bonds). Over the short term, these instruments are expected to be less susceptible to climate change transition risks than, for example, equities.

Climate solutions and exclusions

We have put in place a number of tactical actions to manage climate change risk, such as the minimum target of 60% of new illiquid asset originations invested into sustainable assets. We also have in place an exclusion policy which can result in a bar on investments into certain sub-sectors and counterparties with particularly adverse climate change outcomes.

Run-off impacts

We have applied climate change shocks looking to capture the potential impact of climate change developments over a 30-year timeframe to a fixed 2020 year end balance sheet. As a result the scenario analysis does not make allowance for the expected run-off of the business, nor any anticipated new business.

The former is particularly material for with profits business, most of which is expected to mature before the completion of the 30-year timeframe.

Vulnerability of sovereign debt holdings

Overview

The University of Notre Dame Global Adaptation Initiative (ND-GAIN) index is well recognised index that uses data across 45 indicators to rank 181 countries annually based upon their vulnerability and their readiness to successfully adapt to climate change.

We use the Notre Dame GAIN index as a proxy to assess the vulnerability of our sovereign debt holdings to climate change. The main focus is on the potential impact of physical risks and the country's readiness to improve its resilience.

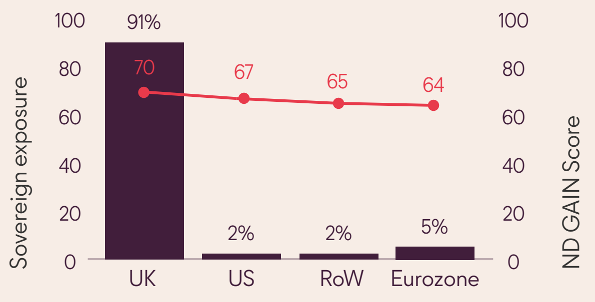
Our sovereign bond portfolio exposure by country is shown on the left-hand scale of the graphs below and the Notre Dame GAIN measurement (index from 0 to 100) is shown on the right-hand scale of the graphs. A high score indicates a lower vulnerability of the country to adverse climate change impacts.

Key insights

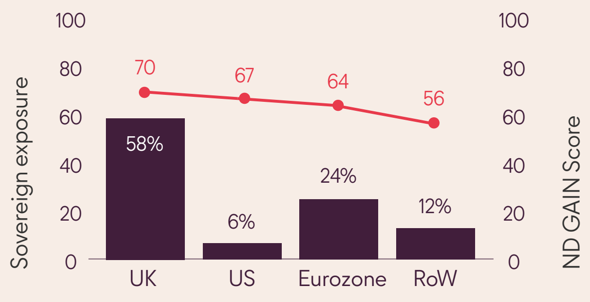
Over 90% of the shareholder sovereign debt holdings are in the UK, which benefit from a high score of 70 using the Notre Dame GAIN index. This indicates a low vulnerability to climate change risks.

The policyholder sovereign debt portfolio has a high average Notre Dame GAIN index score of 69 due to the prevalence of exposures in lower risk countries. The UK exposure dominates at 58% with some Eurozone exposure (24%). Both of these holdings are amongst the lower risk ratings from the Notre Dame GAIN index with scores of 70 and 64 respectively. The Rest of the World holding (which accounts for 12% of policyholder sovereign debt holdings) covers a range of different countries, with Japan being the largest single holding.

Phoenix's top sovereign holdings – shareholder funds



Phoenix's top sovereign holdings – policyholder funds



Key future priorities

- Roll out of decarbonisation strategy for listed assets.
- Increase our engagement with investee companies as part of stewardship activities.
- Direct investments in sustainable opportunities.
- Working with industry decision makers and government to advocate for sustainable climate and energy policy and supportive regulation.
- Further develop our internal view of climate change risks, addressing known limitations and reflecting best practice. This will include making allowance for the expected impact of the Group's actions to meet its net zero commitment and enhancing analysis of physical risks.
- Broaden scenario analysis to deepen assessment of the physical risk to our assets.
- Complete Round II of the Bank of England's CBES exercise.

04 Risk management

The Group's Risk Management Framework has been enhanced to identify, assess and mitigate the impact of climate risk and support the achievement of our net zero climate ambition. It continues to mature, to reflect both our increased understanding of these risks and evolving market practice.

Identification and assessment of climate-related risks

Key areas of progress

Integrated climate risk with the Group's Risk Management Framework ('RMF').

Embedded climate into all Group risk policies

Approved climate change risk appetite statements.

Developed and approved Climate Risk Management and Climate Stress & Scenario Testing Framework documents.

Developed climate risk reporting including key internal climate change risk metrics and targets.

The Group first reported climate risk as an emerging risk in 2018. Since then, we have increased the focus and integration of climate risk within the Group's Risk Management Framework. In particular we have classified Sustainability Risk as a principal risk to the Group since 2019, with climate change being a specific sub-risk under this heading.

In 2020, an exercise was undertaken by the Group (supported by third party consultants) to help identify and understand the key areas of climate-related risks and opportunities which may impact the Group.

Phoenix may be impacted by physical climate risks, net zero transition risks and potential opportunities. These impacts, as defined by the taskforce are summarised below.

Identification of climate-related risks has been embedded into the components of the RMF which support the identification of risks from a top-down and bottom-up perspective. Assessment of climate-related risks is undertaken from both a qualitative and quantitative perspective.

Risk or opportunity	Drivers	Potential impacts
Transition Associated with the transition to a low carbon economy	Policy and legal	• Increased compliance costs, stranded assets, asset impairment, restrictions and limitations on carbon intensive assets and asset depreciation.
	Market and economic	• Adverse impact on company valuation, asset impairment, viability of business model and credit rating implications.
	Technology	• Write-offs of investments in disrupted technologies, required investment in new technologies and process change costs. to accommodate new technologies.
	Reputation	• Reputational or brand value damage resulting in lost income and additional expenditures, for example through future litigation and capital charges.
Physical Related to the physical impacts of climate change	Acute physical	• Disruptions to business operations due to short-lived extreme weather impacts. • Damage to physical assets and impacts on insurance liabilities.
	Chronic physical	• Greater energy consumption needs due to chronic changes, such as temperature rise, impacting cooling/heating requirements. • Risk to the workforce due to illness and mortality or disrupted working patterns due to changing climatic conditions.
Opportunities produced through efforts to adapt to climate change	Internal and external	• Reduced operating costs through greater resource and energy efficiency. • Demand and development of new products, investment and market opportunities.

Management of climate-related risks

By adopting a proactive approach towards climate change, the Group believes its actions can help to mitigate against climate-related risks. The most material areas of risk for Phoenix and the actions being taken to manage them are identified below. Many of these actions are expected to have a positive impact across a number of the risk areas in our risk universe.

When considering the time horizon of when the climate-related risks are likely to materialise, Phoenix has categorised short, medium and long term according to the following timescales: Short term 0–1 year; Medium term 1–5 years; and Long term over 5 years.

Overview of material climate-related risks/opportunities to Phoenix

Potential Material Risk/ Opportunity Areas	Phoenix impacted risk areas	Time horizon	Actions to mitigate
Climate risk exposures within our investment portfolios (Physical & Transition)	Market Credit Financial Soundness	Short-Medium-Long	• We have considerably enhanced our assessment of climate risks by asset class/sector and geography, supported through procuring new data sets and enhancing modelling capabilities. This will be further developed in 2022. • Interim decarbonisation targets for 2025 and 2030 have been set to support our 2050 net zero carbon commitment. Targets and metrics have been developed and are being reported against to monitor progress. • We have set a target for at least 60% of illiquid asset originations to be in sustainable investments. • We will continue to pursue a policy of engagement and stewardship with counterparties through asset managers. This is supported by an approved Group exclusion policy.
Changing demand for products, funds and solutions given evolving customer needs (Transition)	Customer Strategic Insurance	Short-Medium-Long	• We have continued to develop the range of ESG and sustainable default customer solutions available to our policyholders, particularly in relation to workplace pensions. Further progress is expected in 2022. • We will consider further potential opportunities for developing new and innovative 'green' products and services.
Emerging government policy, regulatory & legal changes (Transition)	Strategic Financial Soundness Customer Operational	Short-Medium-Long	• Ensure appropriate monitoring of climate developments within existing regulatory horizon scanning frameworks. • Update metrics as climate change risk evolves to provide management with greater information to make any required adjustments to risk appetite and tolerances. • Continue to identify, assess and manage our transition risk exposures. • Develop monitoring of trends in interpretation of current laws with regard to climate/ESG issues.
Reputational damage if climate risks not appropriately managed (Transition)	Strategic Insurance Financial Soundness Customer	Short-Medium	• Present a positive Phoenix stance on climate change. • Set and meet public net zero commitments. • Continue supporting climate change-aligned organisations such as the Carbon Disclosure Project and continue to work collaboratively with peers and industry bodies. • Further develop climate disclosures to ensure good quality reporting compared to peers and emerging best practice.
Disruptions to our business operations (Physical & Transition)	Operational	Short-Medium	• Continue to ensure that robust business continuity and operational resilience frameworks consider all office locations, staff, systems and processes. • Continue to implement energy efficiency and carbon reduction measures in order to support the 2025 net zero commitment for operations. • Further engage with key suppliers in order that they make phased reductions in emissions to align with our commitments and increase screening of new suppliers to ensure they meet our sustainability standards.

Integration of Climate Risk within the Group's Risk Management Framework

The Group's Risk Management Framework sets out how the Group identifies, manages, monitors and reports on the risks to which it is, or could be exposed (including climate-related risks). The diagram opposite summarises how climate change is reflected across the Group's RMF.

Risk Management Framework

1 Risk strategy and culture
Sustainability and minimising environmental impact are a key component of the Group's strategy. We have set net zero carbon commitments for operations, supply chain and the investment portfolio.

2 Risk appetite
The sustainability risk appetite statement is approved by the Board. We have approved supporting climate risk appetite statements and metrics.

3 Risk universe
Climate risk is treated as cross-cutting risk, rather than standalone risk, as it can potentially impact all Level 1 risk categories.

4 Risk policies
All policies have been reviewed to ensure appropriate content is included for material climate risk exposures.

5 Governance and organisation
Governance is led by the Board Risk and Board Sustainability Committees plus supporting management committees. There is clarity on roles and responsibilities across the three lines of defence.

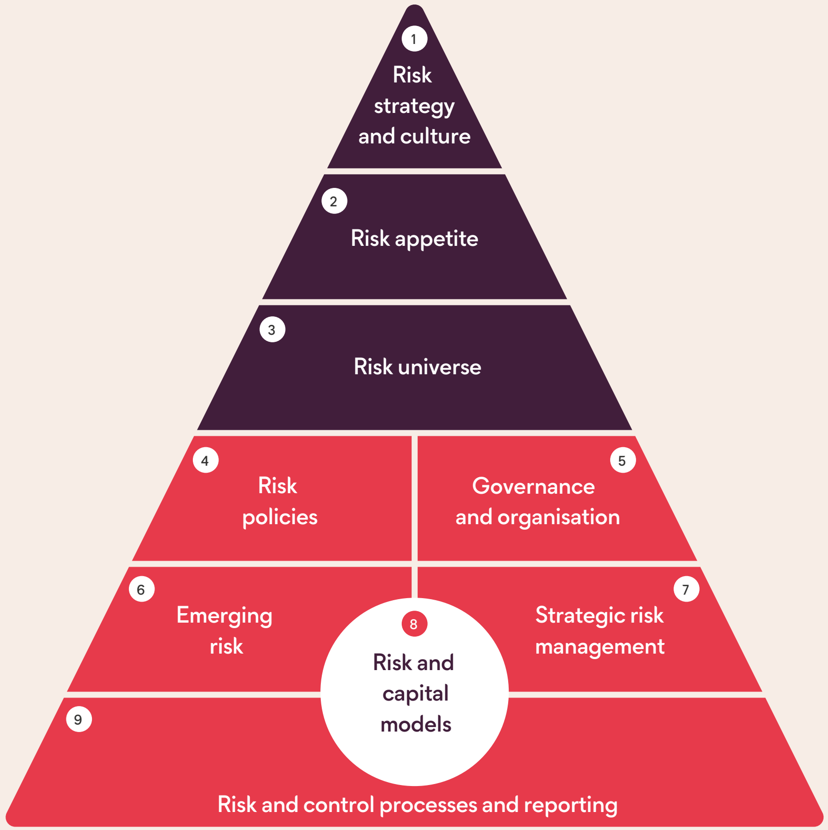
6 Emerging risk
Climate and ESG risks continue to be monitored via the well established emerging risk process, which also considers the evolving regulatory landscape. This is supported by forward-looking Own Risk and Solvency Assessment ('ORSA') monitoring.

7 Strategic risk management
Climate risk is a principal risk and considered as part of Line 2 oversight of strategic developments, e.g. Annual operating plan development, project reviews, ORSA, management actions and regular risk reporting.

8 Risk and capital models
External tools have been sourced to support carbon footprinting and climate scenario analysis. Models have been developed for internal climate scenario analysis with enhancements to be made in 2022.

9 Risk and control processes and reporting
Supplemented with climate dashboards and minimum control standards.

Risk Management Framework



Enhancement in 2021

In 2021, we have continued to enhance our assessment of climate-related risks across a number of dimensions of the RMF and have made good progress in relation to a number of priority areas highlighted last year (develop internal climate risk appetites, embed climate risk considerations within the RMF and develop internal climate risk reporting).

Risk appetite

The Board approved Sustainability Risk Appetite Statement states: 'The Group will deliver on its sustainability commitments to foster responsible investment, reduce our environmental impact, follow our corporate purpose and be a good corporate citizen.'

To support this, more detailed climate change risk appetite statements (aligned with the material climate change risk exposures across the Group's risk universe) have been approved by the Board in 2021.

The Group has a very low appetite for failing to identify and manage impacts of climate-related risks on its investments or its operations and, also, for failing to deliver on its climate-related sustainability commitments.

Risk universe

Climate is treated as a cross-cutting risk. In 2021 we demonstrated to the Board how climate change risks have been embedded across the different dimensions of the Group's RMF.

This new Climate RMF document will continue to evolve and mature over time as our understanding of climate risk impacts and the associated tools and approaches are embedded.

By providing a consolidated view of how climate change risks are covered across the RMF, it increases focus on the overall management of these risks.

Risk policies

The Group has completed the work to fully embed material climate-related risks into all Group Risk Policies and supporting processes such as minimum control standards. In 2021 each Group Risk Policy was amended (where appropriate) to explain how consideration had been given to climate change risks in the policy. Group Risk Policies were divided into three broad categories:

1. Climate change is material to the policy and the risk policy has been updated to set the minimum operating standards relating to the management of climate change (c. 30% of policies).

2. Although climate change impacts the policy, it would act to exacerbate existing risks rather than create new exposures therefore no updates have been made to the risk policy. However, supporting frameworks and processes will be enhanced to ensure that they appropriately reflect climate change risks (c. 50% of policies).

3. No updates have been made to the risk policy as it is not materially impacted by climate change. Any increase in climate-related risk exposures will be reflected in normal risk reporting and revisited in subsequent policy refreshes (c. 20% of policies).

From 2022 onwards, the annual risk policy review will consider climate and other risks to ensure our policies reflect new developments and remain in line with best practice.

Risk and capital models

During 2021, models have been developed for internal climate scenario analysis. The scenario section above describes the work.

Key future priorities

Continue to review and enhance the risk management framework as further information is developed, including through scenario analysis work.

Continue to enhance our internal climate scenario analysis capabilities.

Enhance the data strategy and model for collecting and reporting on climate change risk.

Further develop the internal climate change risk reporting, reflecting the evolution of market best practice and tracking the progress made in terms of the Group's interim net zero targets for both internal operations and the investment portfolio.

05 Metrics and targets

A comprehensive metrics framework allows us to measure and manage the impacts of transition and physical risk on our investment portfolio, operations and our business.

Ambitious targets help us to navigate our progress to meet our net zero ambition.

Development of our climate metrics

Key areas of progress

Baselined Scope 3 financed emissions for the listed assets sub-portfolio.

Set top-down investment portfolio decarbonisation targets for 2025 and 2030.

Broadened our suite of climate metrics including tracking exposure to high transition risk sectors and SBT portfolio coverage.

Reduced Scope 1 and 2 emissions intensity from occupied premises per full time employee by 34% on 2020 value .

Procurement of a data management system to help us track and manage our direct operational impact placeholder.

Engaged 84% of our key suppliers and partners on climate change.

Managing our operational and investment impacts

To help deliver our net zero ambition, in 2021 we have further evolved our metrics framework to include additional industry recognised metrics to evaluate our investment portfolio and operational exposure to climate-related risks and opportunities. This is an evolving framework and we will add further metrics as our management of climate risks and opportunities matures.

In the following table, we set out the metrics we used in 2021 to measure our progress.

These metrics help us to better understand our investment and operational exposure to climate. They will inform us as we strive to meet our organisational goals which depend on a number of factors including the adoption of progressive climate and energy policy and innovation and advances in technology.

Please see the strategy section for how we intend to collaborate with partners, decision makers and Government to support the transformation needed. We will continue to review and enhance our metrics framework as data, methodology, industry guidance and best practice develop.

	Measure	Metric	Unit	Methodology	Overview
Investment metrics	Carbon footprint	Absolute financed emissions	tCO_2e	PCAF	Captures a portfolio's fair share of emissions of the investee companies
		Economic emissions intensity	tCO_2e/£m invested	PCAF	Expresses portfolio emissions per unit of capital invested
		Revenue emissions intensity (WACI)	tCO_2e/\$m revenue	TCFD	Expresses portfolio emissions per unit of sales revenue of the investee companies
	Transition risk	Percentage of assets exposed to high-transition risk sectors	% of AUA	Bespoke	Proportion of portfolio invested in sectors that are vulnerable in a transition to a net zero economy
	Portfolio alignment	Science-based Targets (SBT) portfolio coverage	% of AUA	TCFD	Proportion of portfolio invested in companies that have set science based targets
Operational metrics	Carbon footprint	Scopes 1, 2 and selected Scope 3 absolute emissions	tCO_2e	Greenhouse Gas Protocol, EcoAct Homeworking Emissions Whitepaper	Measures Scopes 1 and 2 carbon emissions intensity per full time employee and per floor area
		Scopes 1 and 2 emissions intensity per full-time equivalent employee ('FTE') intensity and per floor area intensity	tCO_2e/FTE/ annum $kgCO_2e/m^2$		
Supply chain metric	Carbon footprint	Scope 3 purchased goods and services	tCO_2e	Greenhouse Gas Protocol hybrid approach with estimated direct data from the supplier and spend data	2019 baseline work commenced in 2022 and determination of hot spots in the supply chain identified

Scope 1, 2 and 3 definition

Phoenix Group's main sources of GHG emissions are in the investment portfolio and in its business operations and supply chain. Under the GHG protocol, our emissions are separated into the following categories:

Scope 1: Direct emissions associated with our offices and any vehicles we own.

Scope 2: Indirect emissions from the generation of purchased or acquired electricity, steam, heating or cooling.

Scope 3: Emissions generated via upstream activity such as business travel, employee commuting, waste generated, employee homeworking, purchased goods and services and the downstream impacts of our business such as financed emissions from the companies we invest in.

The impact of our investment portfolio

Measuring the carbon profile of the listed assets

The emissions of our listed assets is equivalent to the emissions of heating 5.4 million homes for a year.

Approach

We have taken a phased approach to evaluating the carbon profile of the Group's investment portfolio. In this first phase we have evaluated the emissions of the listed assets – the credit and equity sub-portfolios – which span across our shareholder and policyholder funds, amounting to c. 55% of total AUA or £165 billion.

This is the part of the portfolio where industry practice for evaluating financed emissions is most established and where we have the greatest confidence in counterparty emissions data. Taking this approach enables us to set a baseline for our 2025 interim decarbonisation target (see Setting Ambitious Targets).

Our analysis evaluates absolute portfolio emissions and two portfolio emissions intensity metrics on economic and revenue bases. Emissions intensity is an important measure for portfolio investors as this enables comparison between portfolios of different sizes and between different time periods. Economic intensity expresses portfolio emissions per unit of capital invested whereas revenue intensity expresses it in terms of unit of sales revenue of the investee companies. The calculation for each metric is set out in the Appendix (see Methodology).

Methodology

We have evaluated the carbon profile based on the 2019 year end position as this aligns with the NZ AOA decarbonisation framework. As a pre COVID-19 year, it reflects a more comparable level of global economic activity emissions. As signatories to Partnership for Carbon Accounting Financials ('PCAF'), we have adopted its calculation methodology insofar as possible. Our primary source of counterparty carbon emissions data is ISS, an established sustainability data vendor.

Our analysis captures the Scope 1 and Scope 2 emissions of the investee companies. Whilst we recognise counterparties' Scope 3 emissions to be important, particularly in certain sectors such as financials, we do not believe there is currently adequate corporate transparency to enable it to be measured with sufficient accuracy but we will continue to review this.

Analysis

The emissions of the listed assets portfolio is very large and the key concentration of carbon in the Group's footprint. However, it appears to be typical of similar industry portfolios.

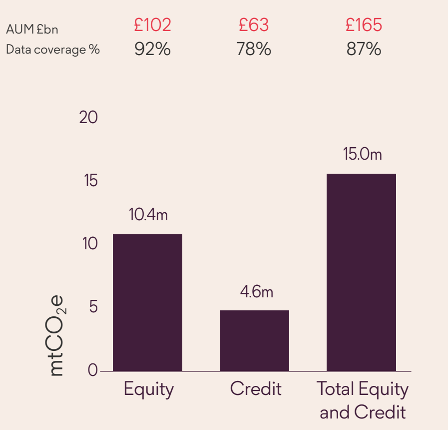
We expect the emissions intensity to decrease over time as we implement our net zero management actions to deliver our 2025 decarbonisation target.

Looking ahead

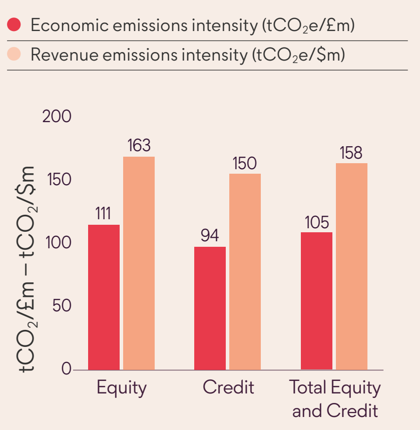
In our second phase, we plan to expand the scope of assets brought into the 2019 baseline analysis by capturing sovereign debt and real estate.

Gradually, we will cover all assets as methods for evaluating financed emissions become established. We will continue to monitor the quality of and evolving practice around Scope 3 data. In time, we expect to expand our analysis to include this.

Absolute emissions of the listed assets^



Emissions intensity of listed assets^



^ Data assured by EY. See page 51 for EY assurance statement.

The impact of our investment portfolio continued

Data quality score

The data quality of the emissions of our listed assets portfolio has a weighted score of 1.6, indicating a high degree of reliability in the underlying sources.

PCAF data hierarchy

Robust decision making is enabled by the consideration of high quality carbon profile data. However, our ability to report accurate emissions information is restricted by the quality and transparency of reporting of the investee companies.

In the interest of transparency, PCAF developed a data quality hierarchy that allows the scoring of the quality of emissions data of individual companies. Data scores range from 1 to 5 with the highest standard of disclosed and verified emissions scoring 1 whereas corporate emissions that are based on industry estimates score 5.

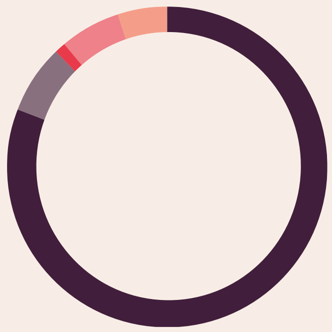
Analysis

The basis for calculating the emissions of the listed portfolio is largely reported data which results in a high data quality score. When considering the portfolio emissions, the large majority is attributed to counterparties that have the highest data quality score. This gives a degree of confidence in the reliability of the figure supporting the calculation of financed emissions and supports the phased approach of first evaluating the listed assets portfolio.

Looking ahead

We do caution, however, that whilst reported climate data is generally of a higher standard than modelled data, there are challenges with consistency, transparency and coverage which limits the true accuracy of the carbon profile of the portfolio. In future, we will look to broaden our data sources over time as a means to help improve the quality of reported data.

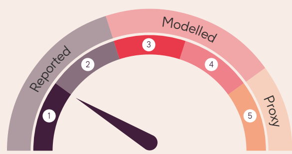
Split of the investment portfolio's 15m tCO_2e by data quality



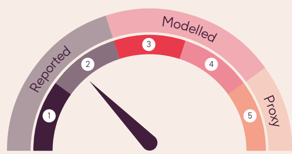
Data quality 1	81%
Data quality 2	7%
Data quality 3	1%
Data quality 4	6%
Data quality 5	5%

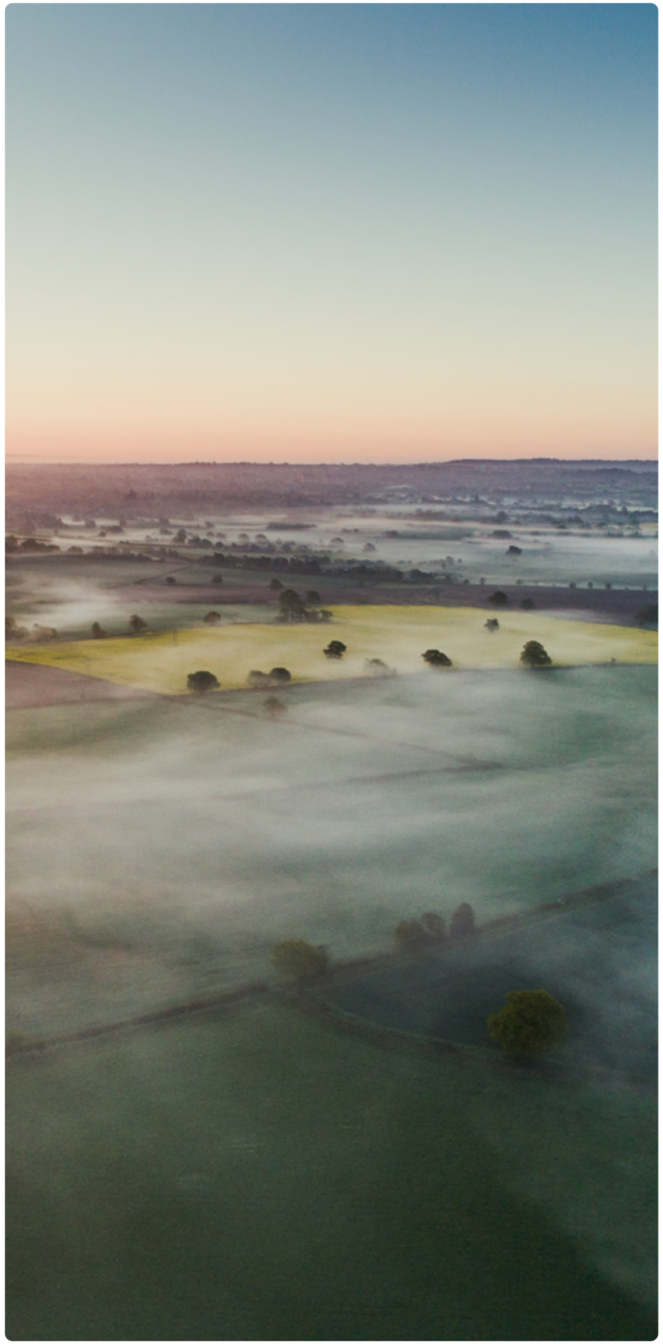
Data quality hierarchy scores

Equity



Corporate bonds





The impact of our investment portfolio continued

Exposure to high transition risk sectors

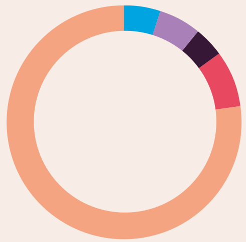
Most financed emissions come from a small part of the listed assets portfolio indicating a concentration in transition risk.

Approach

We qualitatively identified certain industry sectors as being vulnerable or susceptible to price volatility from rising carbon prices due to policy, technology or market changes. Using GICS industry sector methodology, we identified a number of underpinning industries within 4 GICS sectors as being exposed to high transition risk.

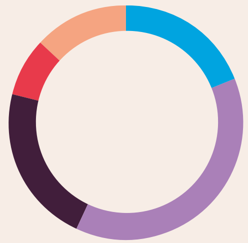
GICS Sector	GICS Sub-Industry
Energy	• Energy Equipment & Services • Oil, Gas & Consumable Fuels
Utilities	• Electric Utilities • Gas Utilities • Multi-Utilities • Water Utilities • Independent Power and Renewable Electricity Producers
Materials	• Chemicals • Construction Materials • Metals & Mining
Industrials	• Aerospace & Defence • Building Products • Construction & Engineering • Electrical Equipment • Industrial Conglomerates • Machinery Trading Companies & Distributors • Air Freight & Logistics • Airlines • Marine • Road & Rail • Transportation Infrastructure

Sector exposure as % of listed assets AUA



Energy	5%
Utilities	6%
Materials	4%
Industrials	8%
Other	77%

Sector exposure as % of absolute emissions^



Energy	19%
Utilities	38%
Materials	22%
Industrials	8%
Other	13%

Profile of the Top 10 emitting counterparties

5%
% of Listed Portfolio AUA

1
Average Data Quality Score

35%
% of Listed Portfolio Emissions

4/10
Number with SBTi targets

Analysis

In total, the exposure to the high transition risk industries account for 23%, or less than a quarter of the listed portfolio AUA. However, they dominate overall absolute emissions accounting for 87% of all listed portfolio emissions.

Further, when we consider the listed portfolio's Top 10 emitting counterparties, which incidentally all sit in high risk transition sectors, we see a similar trend of portfolio emissions being concentrated to a small number of counterparties.

This analysis informs us that transition risk in the portfolio is generally concentrated around a small number of sectors and counterparties.

Looking ahead

The limited exposure to high risk transition assets affords us greater flexibility with regards to portfolio construction and engagement strategy as levers to mitigate this risk. We expect to retain exposure to the high risk transition sectors, continuing to finance names we believe to be 'transition leaders'.

Our stewardship efforts will be targeted at encouraging investee companies to adopt better climate practices which should work to reduce portfolio emissions intensity.

The impact of our investment portfolio continued

Climate alignment

Over 25% of the listed assets portfolio is invested in companies that have set or are in the process of setting science-based targets.

A key forward looking climate 'alignment' metric that we have adopted is Science Based Targets ('SBT') portfolio coverage.

This evaluates how aligned a portfolio is to funding the transition to a net zero economy and at the same time how resilient it is likely to be to transition risk.

Method

We evaluate this metric based on whether an investee company has affiliated itself with SBTi – the leading body for target setting – and either committed to setting science-based targets or that it has already set its targets and had them approved by SBTi.

Analysis

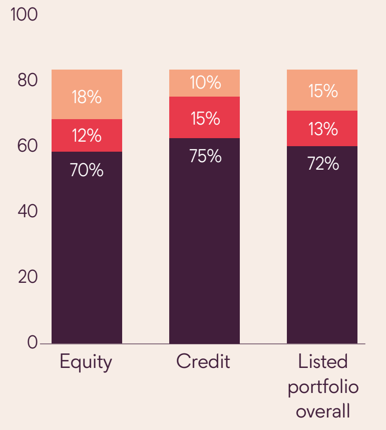
As at year end 2019, over a quarter of the listed portfolio was invested in counterparties that had committed to set or already set approved science-based targets. A very similar proportion of the financed emissions arose from companies with SBTs. This indicates a meaningful level of net zero alignment within the listed assets portfolio.

Looking ahead

We will track this metric over time with the expectation that the share of the portfolio with SBTs will increase.

Where investee companies have not set SBTs, through our stewardship activities we will encourage them to do so. Our focus here will be the companies that are most exposed to climate risk.

Percentage of listed portfolio AUA with science-based targets



Split of the investment portfolio's 15m tCO_2e by target status

The impact of our investment portfolio continued

Setting ambitious targets

We estimate that by meeting our 2030 target, we could deliver carbon reductions equivalent to the emissions generated by three months of UK electricity production.

In 2020, we committed to achieving net zero emissions in our investment portfolio by 2050 which would align with the UK Government's net zero goal and goals of the Paris Agreement.

As our understanding of portfolio decarbonisation techniques evolve, we will investigate, analyse and calibrate additional nearer term targets to progressively broaden our suite of portfolio decarbonisation hurdles. These are important milestones that inform whether we remain on trajectory to meet our overarching portfolio net zero by 2050 ambition. Hence, our target setting approach is incremental but rigorous.

Setting our interim decarbonisation targets

In 2021, we developed two interim 'top down' portfolio decarbonisation targets for 2025 and 2030. To develop and properly calibrate these, we engaged the support of a specialised consultancy firm. In this exercise, we referenced the future emissions trajectories under a transitioning world under different scenarios produced by IEA and the Intergovernmental Panel on Climate Change ('IPCC'), two leading providers of climate scenario pathways. Our general preference was to identify pathways which restricted warming to +1.5°C relative to pre-industrial temperatures with limited or no overshoot and had credible assumptions on technological developments such as carbon capture.

Investment targets	Basis	Scope	AUA	Target year	Base year
Reduce GHG economic emissions intensity by 25%	PCAF	Listed equity and credit sub-portfolio where we have control and influence	~160bn	2025	2019
Reduce GHG economic emissions intensity by at least 50%	PCAF	All assets where we have control and influence	~250bn	2030	2019
Achieve Net Zero absolute financed emissions	PCAF	Full investment portfolio	~310bn	2050	2019
Develop decarbonisation targets in line with SBTi methodology	SBTI	To be determined in 2022		2022+	
Invest at least £250 million in climate solutions		From policyholder assets		2022	

Scope of targets

The 2025 interim target applies to our listed equity and credit portfolios where we have control and influence. The listed assets portfolio was chosen as the first target as this is the part of the investment portfolio where methods to measure emissions and techniques for portfolio decarbonisation are most developed. Our pilot portfolio decarbonisation analysis indicated our planned portfolio construction initiatives to deliver into this target are well aligned with our fiduciary interests of optimising its risk-return profile.

Our 2030 interim target is more aggressive and broader in scope as it captures all assets where we have control and influence. To be able to continue to meet our fiduciary interest of optimising the portfolio's risk-return profile whilst meeting this target, we believe that real world change is required – from policymakers, corporates and consumers – in order for there to be sufficient green low carbon assets available for us to invest in.

Phoenix will play its part in the transition, however, given much of this change is out of our control, we plan to review the appropriateness of the 2030 target in 2025.

Looking forward, in 2022 we intend to develop our targets further to set more granular science-based targets.

Key future priorities

Measure Scope 3 financed emissions for the remaining asset classes in the investment portfolio, starting with real estate and sovereign debt in 2022.

Further develop investment metrics being with a particular focus around physical risk.

Develop science-based targets and submit to the SBTi for formal validation.

As data quality improves, broaden the scope of reporting and target setting to capture the Scope 3 emissions of the underlying companies.

The impact of our operations

Measuring our operational carbon footprint

We are a Group with over 8,000 employees, with over 20 sites across four countries and we are actively measuring and reducing our emissions from our internal operations to support our Group-wide 2050 net zero target.

Improving reporting and transparency
This year we have expanded the granularity of our operational data and are now reporting a number of additional Scope 3 categories to allow us to focus on areas where we can make greater impact.

We have chosen to extend the reporting scope on business travel to include emissions from other third party owned/operated sources (including air and rail travel) for the first time this year.

We have included a more accurate assessment of employee commuting emissions to include data collected from an extensive employee commuting survey on habits since the onset of the pandemic. This means that the Scope 3 emissions have increased in absolute terms from our 2020 report, however, this is as a result of the increased scope.

For the first time, a market-based intensity has also been disclosed to highlight the efforts made to procure green energy across the portfolio. Further details are included on the next page.

Environmental Management System
Central to managing our impact is the Environmental Management System ('EMS') that we have adopted to facilitate sustained greenhouse gas reductions. We are creating, updating and collating a number of internal plans and processes to begin the alignment of the EMS we have in place against the requirements of the International Standards ISO 14001 prior to seeking standalone accreditation in 2022.

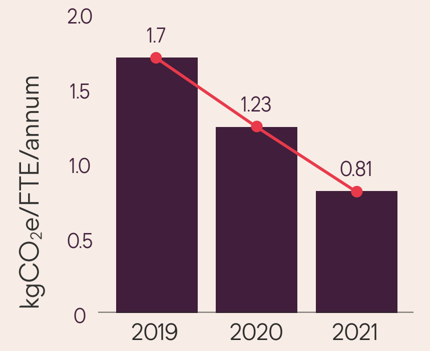
^ Data assured by EY. See page 51 for EY assurance statement

	Measure	Metric	Unit	Methodology
Operational Metrics	Carbon Footprint	Scopes 1 and 2 emissions intensity per full-time equivalent employee ('FTE') and per floor area intensity	tCO_2e/FTE/annum $kgCO_2e/m^2$	Greenhouse Gas Protocol, EcoAct Homeworking Emissions Whitepaper
		Scopes 1, 2 and selected Scope 3 absolute emissions	tCO_2e	

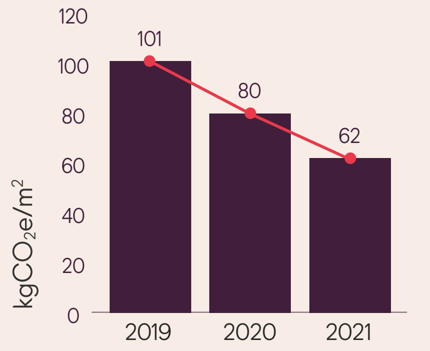
Analysis
The Scopes 1 and 2 emissions intensity from occupied premises per full time employee ('FTE') in 2021 has decreased by 34% from 2020 and our absolute emissions (location-based Scope 1+2) have decreased by 12% from 2020.

The ongoing impacts of COVID-19 and continued hybrid working has led to a decrease in emissions. We have re-assessed office utilisation and undertaken building consolidation in 2021 and we have also progressed efforts to improve energy efficiency.

Intensity metric for Scope 1 and 2 emissions per FTE (location based)^



Intensity metric for Scope 1 and 2 emissions from occupied premises per floor area (location based)^



The impact of our operations continued

Scopes 1, 2 and 3 operational emissions summary

	Market based			Location based		
	tCO_2e					
	2021	2020	2019	2021	2020	2019
Scope 1 & 2^	4,833	8,178	7,905	13,145	14,978	17,255
Scope 3						
Category 3: Fuel and Energy Related Activities (transition and distribution)^	1	1,040	760	722	3,129	4,267
Category 6: Business Travel^	356			356		
Category 8: Upstream Leased Assets (where Phoenix Group is the lessee)^	2,051			1,765		
Category 13: Downstream Leased Assets (where Phoenix Group is the lessor)^	312			2,723		
Category 7: Employee Commuting^	33	n/a	n/a	33	n/a	n/a
Category 7: Homeworking Emissions^	5,454	4,272	n/a	5,261	4,129	n/a
Total Emissions^	13,040	13,490	8,665	24,014	22,236	21,523
Carbon Offsets purchased	2,453			2,453	N/A	N/A
Net Emissions	10,587	13,490	8,665	21,561	22,236	21,523
Scope 1 & 2 emissions from occupied premises per floor area intensity^	30	n/a[1]	n/a[1]	62	80	101
Scope 1 & 2 emissions from occupied premises per full-time equivalent employee ('FTE') intensity^	0.38			0.81	1.23	1.70

1. Market-based intensity metrics were not reported before 2021 and are therefore not retrospectively disclosed.

^ Data assured by EY. See page 51 for EY assurance statement.

Methodology
Phoenix Group has used the main requirements of the GHG Protocol Corporate Standard (revised edition), together with International Energy Agency (IEA) and DEFRA UK Government Conversion Factors 2021, as the basis to report on any GHG emissions in tonnes of carbon dioxide equivalent (tCO_2e). Further details of the methodology are included in the appendix to this report.

Property investment portfolio
We have included the property investment portfolios as well as the occupied premises in UK, Ireland, Germany and Austria. Furthermore, in the property investment portfolios, where energy consumption is sub-metered to tenants, this falls into the Scope 3 reporting, whereas all other landlord-obtained consumption remains as Scope 1 or 2 emissions.

Homeworking emissions
Phoenix Group has also chosen to include estimated employee home-working emissions which fall under Scope 3, using the EcoAct Homeworking Emissions Whitepaper 2020. With this we recognise the indirect emissions resulting from the move to more widespread home-working in 2021 due to COVID-19 and our approach towards a more hybrid way of working within the business.

Carbon offsets
For natural gas consumed in our owned and occupied assets, we recognise the challenges in further reducing this emissions source. In 2021, we purchased gold standard certified carbon offsets, constituting 2,453 tCO_2e.

Intensity calculation
For per floor area, the total floor area for buildings which are like-for-like comparable was summed and then divided by the total Scope 1 and 2 emissions for these buildings. For emissions from occupied premises per FTE, the total number of FTEs per occupied premises were summed and divided by the total Scope 1 and 2 emissions for the relevant buildings. Buildings that did not contribute to Scope 1 and 2 emissions or that were not occupied by Phoenix employees were not included in the metric.^

The impact of our operations continued

Setting ambitious targets

Achieving our 2021 target through carbon reduction

In 2021, we achieved a 34% reduction in our operational emissions intensity from 2020. We have aligned our capital expenditure programme to our net zero target, by re-prioritising expenditure based on the potential carbon impact of the projects considered. These projects are aligned to the Eliminate-Reduce-Substitute-Compensate strategic model set out in our strategy section on page 21.

Looking ahead

We will continue to seek further opportunities to manage our operational carbon footprint. For example, through building consolidation opportunities to improve the effectiveness of our current use of space, new technologies to reduce our business travel; and continuing our building improvement works to achieve greater energy efficiencies.

Setting targets

We set out below the ambitious targets we have set to hold ourselves to account. We recognise the ability to meet our organisational goals will depend on a number of factors including the adoption of progressive climate and energy policy and innovation and advances in technology.

Operational targets	Target year
20% reduction (2022 versus 2021 target) in Scopes 1 and 2 operational emissions intensity per FTE	2022
Net zero operations	2025

The impact of our supply chain

Working with our suppliers and partners

Phoenix Group operates an outsourced business model and our supply chain is critical in the delivery of our strategic objectives. Delivering our net zero ambition will require the support of our partners and suppliers and we have been engaging them to build a clear climate change strategy including a plan to set a carbon reduction target. To date, 80% of our key suppliers have committed to a carbon reduction target and we are requiring them to commit to SBTi and or Race to Zero. We are embedding our carbon reduction targets in our partner and supplier contracts. Additionally, we have been encouraging our key suppliers to submit their carbon emissions data via the CDP suppliers survey. In 2021, our first year participating, we were pleased that 81% of our key suppliers submitted data.

We have also been developing our methodology for measuring our supply chain emissions and will be determining the baseline of our emissions in 2022. This will help us understand where we have carbon 'hot spots' so we can focus on these areas to minimise emissions.

We have set out below the Group's ambitious targets related to our supply chain.

Looking ahead

Throughout 2022 we will continue to share knowledge, resources and tools to help our partners and suppliers set their internal and external targets.

Supply chain targets	Target year
75% of key suppliers committed to SBTi and/or Race to Net Zero	2022
50% reduction in supply chain emissions intensity	2030
Net zero supply chain	2050

Key future priorities

Seek further opportunities to manage and reduce our operational footprint through our eliminate, reduce, substitute and compensate model.

Develop operational targets related to waste and water as data becomes available.

Establish our supply chain emissions baseline and model our emissions to 2050 to identify the 'hot spots' in our supply chain emissions.

Roll out supply chain decarbonisation plan.

Ensure all of our key suppliers have an SBTi and/or Race to Zero committed carbon target and that all suppliers are on track to set a carbon reduction target.

06 Appendix

Glossary

Carbon footprint
A carbon footprint is the total greenhouse gas (GHG) emissions caused by an individual, event, organisation, service, place or product, expressed as carbon dioxide equivalent (CO_2e).

Carbon offsets
A reduction or removal of emissions of carbon dioxide or other greenhouse gases made in order to compensate for emissions made elsewhere.

Climate scenario
A plausible representation of future climate that has been constructed for explicit use in investigating the potential impacts of anthropogenic climate change.

CBES (Climate Biennial Exploratory Scenario exercise)
Bank of England exercise to explore the financial risks posed by climate change for the largest UK banks and insurers.

CDP (Carbon Disclosure Project)
Global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

COP26 (UN Climate Change Conference of the Parties)
The 26th UN Climate Change Conference of the Parties held in Glasgow in November 2021.

ESG (Environmental, Social and Governance)
ESG criteria are a set of standards that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls and shareholder rights.

Financed emissions
Greenhouse gas emissions that occur as a result of financing, including lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol.

GICS (Global Industry Classification Standard)
A four-tiered, hierarchical industry classification system.

GHG (Greenhouse gases)
Gases which warm the earth at different intensity levels such as water vapour, carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), hydro chlorofluorocarbons (HCFCs), ozone (O3), hydrofluorocarbons (HFCs),and perfluorocarbons (PFCs).

Greenhouse Gas Protocol
Global standard for companies and organisations to measure and manage their GHG emissions.

Net Zero
A state where we add no incremental greenhouse gases to the atmosphere. Emissions output is balanced with removal of carbon from the atmosphere.

Paris alignment/agreement
Goal set by the global Paris climate change deal in 2015 to hold global average temperature increase to 'well below 2 degree Celsius above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels'.

PCAF (Partnership for Carbon Accounting Financials)
Global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments.

Scope 1, 2 and 3 emissions
Greenhouse gas emissions are categorised into three groups or 'Scopes'. Scope 1 covers direct emissions e.g. use of natural gas, company car vehicle emissions. Scope 2 covers indirect emissions from the generation of purchased electricity, steam and heating. Scope 3 includes 15 other categories of indirect emissions in a company's value chain e.g. business travel and investments.

SECR (Streamlined Energy and Carbon Reporting)
Reporting of emissions sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Stewardship
Use of influence to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend.

SBT (Science Based Targets)
An emissions reduction target is defined as 'science-based' if it is developed in line with the scale of reductions required to keep global warming below 2°C from pre-industrial levels.

Methodology

Calculating absolute emissions

Measuring financed emissions (Scope 1 and 2) in absolute terms, i.e. metric tonnes of CO_2e, provides baseline for climate action to align with the Paris Agreement. The financed emissions are calculated by multiplying the proportion share of a given company, by the emissions of respective investee company.

$$\text{Absolute Emissions} = \sum_c \frac{\text{Outstanding amount}_c}{\text{Enterprise Value Including Cash}_c} \times \text{Company emissions}_c$$

Calculating financed emissions for listed equity and credit – emissions intensity method

When the absolute emissions figure is not normalised for the size of the company or investor, it does not allow for comparison across companies, portfolios or different time periods.

To address this challenge, we calculated the weighted average of revenue intensity and the weighted average of economic intensity using the following formulae:

Weighted average of economic intensities:

$$= \frac{\sum_c \text{Holding Value}_c \times \frac{\text{Scope 1+2 emissions in company}_c}{\text{EVIC}_c}}{\sum_h \text{Portfolio Holding Value}_h}$$

Weighted average of revenue intensities:

$$= \frac{\sum_c \text{Holding Value}_c \times \frac{\text{Scope 1+2 emissions in company}_c}{\text{Revenue}_c}}{\sum_h \text{Portfolio Holding Value}_h}$$

Other metrics

Calculating SBTi-aligned companies

Science Based Targets are targets that, based on the latest climate science, have objectives that are consistent with the goals of the Paris Agreement. A key climate 'alignment' metric is percentage of AUA Invested in companies that have Science Based Targets (SBTs). This evaluates how aligned a portfolio is to a net zero economy and therefore how resilient it is likely to be to transition risk. This metric is evaluated based on whether an investee company has affiliated itself with SBTi – either it has committed and is in the process of setting science-based targets or that it has already set its targets and had them approved by SBTi.

Data quality scores

The data quality score is used to indicate the quality/reliability of the source data used to derive emissions values for individual Issuers. The Portfolio Data Quality Score is the Market Value weighted sum of Data Quality scores for the constituent holdings.

PCAF defines a data quality scale with 1 being the most reliable and 5 the least. The approach we have used, is calibrated in line with the PCAF approach insofar as possible.

The weighted average score is calculated as follows:

$$\text{Data Quality Score} = \frac{\sum_h \text{Holding}_h \ \text{Data Quality Score}_h \times \text{Market Value}}{\sum_h \text{Holding}_h \ \text{Market Value}_h}$$

High transition risk

'Transition risk' – the technological, market, legal and reputational risk of a transition to a net zero economy – is the key climate change risk that affects the Group's investments portfolio. A number of sub-industries within 4 carbon intensive GICS sectors were qualitatively identified as being exposed to elevated levels of transition risk. The metric is evaluated by expressing the value of these holdings as a % of AUA of the listed assets portfolio.

Scope 2 emissions using GHG Protocol

Phoenix Group reports Scope 2 emissions using the GHG Protocol dual-reporting methodology, stating two figures, location and market-based, to reflect the GHG emissions from purchased electricity:

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

Independent assurance statement to Phoenix Group Holdings PLC ('Phoenix Group') management

Scope

We have been engaged by Phoenix Group to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, here after referred to as the engagement, to report on Phoenix Group's selected data (the "Subject Matter") indicated with a '^' symbol within Phoenix Group's 2021 Climate Report (the "Report"):

- % reduction in scope 1 and 2 emissions from occupied premises (per FTE) (page 8)
- key suppliers engaged on climate change (%) (page 8)
- illiquid asset originations as sustainable investments for the shareholder portfolio (%) (page 20)
- waste diverted away from landfill (%) (page 22)
- absolute emissions of listed assets and emissions intensity of listed assets (page 40)
- Sector exposure by % of absolute emissions (page 42)
- GHG emissions (page 46)

We have only sought evidence to support the 2021 performance data. We do not provide conclusions on any other data from prior years. Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by Phoenix Group

In preparing the Subject Matter, Phoenix Group applied the following criteria: The Partnership for Carbon Accounting Financials (PCAF) methodology (as set out in pages 39-40); the GHG Protocol Corporate Standard (revised edition); Phoenix's Sustainable Supply Chain Climate Change Standards (as referenced on page 8); and Phoenix's 'Framework for Sustainability Classification' (as referenced on page 20) (collectively the 'Criteria').

Phoenix Group's responsibilities

Phoenix Group's management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Subject Matter, such that it is free from material misstatement, whether due to fraud or error.

EY's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ISAE 3000' Revised), and the terms of reference for this engagement as agreed with Phoenix Group on 6 December 2021. Those standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Subject Matter in order for it to be in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Our independence and quality control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and ISQC[1], and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Subject Matter and related information and applying analytical and other appropriate procedures.

1 Parts A and B of the IESBA Code; and the International Standard on Quality Control 1 (ISQC1).

Independent assurance statement to Phoenix Group Holdings PLC ('Phoenix Group') management continued

Our procedures included:

- Interviewed a selection of specialists responsible for managing environmental, responsible investment and supplier performance in the business, and for collating and checking sustainability data for internal and public reporting purposes. We did this to obtain an understanding of the internal control environment for the data, performance of KPIs in the period and reporting processes both at a group and site level.
- Checked a selection of management documentation and reporting tools, including guidance documents, to understand internal controls, reporting processes and policies to further inform our assurance approach and procedures.
- Performed analytical reviews to understand trends in the data and whether they align to our expectations based on our knowledge gained from the procedures above.
- Reperformed calculations to check the accuracy of the data collation and KPIs reported.
- Tested underlying documentation for a sample, based on professional judgement, of environmental, responsible investment and supplier data points to determine the accuracy and completeness of data points within the data sets.
- Evaluated the suitability and application of the Criteria and that the Criteria have been applied appropriately to the Subject Matter.
- Challenged the validation and collation processes undertaken by Phoenix management in relation to the Subject Matter.
- Examined the Report for the appropriate presentation of the Subject Matter, including the discussion of limitations and assumptions relating to the data presented.

We also performed such other procedures as we considered necessary in the circumstances.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that need to be made to the Subject Matter as of 31 December 2021, in order for it to be in accordance with the Criteria.

Restricted use

This report is intended solely for the information and use of Phoenix Group management and is not intended to be and should not be used by anyone other than those specified parties.

Ernst & Young LLP
11 March 2022
London

Forward looking statements

Basis of preparation

The reader should be aware that this report and the information contained within it, is prepared on the following basis:

The preparation of this report requires the application of a number of key judgements and also requires assumptions and best estimates to be made at a given point in time. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include: financed emissions, operational emissions and climate scenario analysis. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect. These judgements and resulting data presented in this report are not a substitute for judgements and analysis made independently by the reader;

Climate disclosures in the 2021 Climate Report 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 time frames 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 this report are likely to be amended, updated, recalculated or restated in the future;

This report uses climate models, external climate data and other sources/methodologies, each of which are subject to ongoing refinement and modifications beyond our control;

The outputs of these models, external data and other sources/methodologies can be materially affected by the quality of the underlying data used. They may be subject to uncertainties affecting the accuracy of their outputs. There is a risk that the outputs may be misinterpreted or misused when dealing with developing themes, such as climate-related disclosures and other environmental, social and governance data points, due to the lack of market standards, historical reference points and benchmark data, as well as the inability to rely on historical data as a strong indicator of future trajectories, in the case of climate change and its evolution;

In general, the quality of the data relied upon in climate and ESG reporting is often not yet of the same standard as more traditional financial reporting and therefore presents an inherent limitation. Further development of reporting standards could materially impact the performance metrics, data points and targets contained in this report; and

As standards, frameworks and practices continue to evolve, it may mean subsequent reports do not allow a reader to compare performance metrics, data points or targets from one reporting period to another, on a direct like-by-like basis.

Forward looking statements

The 2021 Climate 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', 'budget', 'forecast', 'intends', 'will', 'may', 'should', 'expects', 'plans', 'aims', 'seeks', 'targets', 'predict', 'outlook', 'goal', 'continues', 'projected', 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.

Forward looking statements may be affected by:

- changes in legislation;
- industry and regulatory standards;
- the development of standards and interpretations including evolving practices in ESG and climate reporting with regard to the interpretation and application of accounting;
- climate change and a transition to a low-carbon economy (including the risk that the Group may not achieve its targets);
- the limitation of climate scenario analysis and the model that analyse them;
- lack of transparency and comparability of climate-related forward-looking methodologies;
- environmental, social and geopolitical risks; and
- the Group's ability with government and other stakeholders to manage and mitigate the impacts of climate change effectively.

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 2021 Climate 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 2021 Climate Report.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. The forward-looking statements speak only as the date on which they are made. The Group undertakes no obligation to publicly update or revise any of the forward-looking statements or data contained within the 2021 Climate Report or any other forward-looking statements or data it may make or publish whether as a result of new information or for any other reason.

This forward-looking statement in relation to climate-related metrics should not be regarded as a complete and comprehensive statement and should be read together with the Forward-looking statements and the risks identified in the Risk Management Report on pages 54 and 330 of the 2021 Annual Report and Accounts respectively.

Phoenix

Contact us

News and updates
In line with our Sustainability Programme and our commitment to reduce our environmental impact, you can view key information on our website:
www.thephoenixgroup.com

To stay up-to-date with Phoenix Group news and other changes to our site's content, you can sign up for email alerts, which will notify you when content is added.
https://www.thephoenixgroup.com/site-services/email-alerts

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