HELPING PEOPLE SECURE A LIFE OF **POSSIBILITIES**

PHOENIX GROUP HOLDINGS PLC
INTERIM REPORT 2021

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Our performance

KEY PERFORMANCE INDICATORS

£872m
(H1 2020: £433m)
Operating companies' cash generation
APM REM

£5.1bn
(FY 2020: £5.3bn)
Group Solvency II surplus (estimated)

166%
(FY 2020: 164%)
Group shareholder capital coverage ratio (estimated)
APM REM

£412m*
(H1 2020: £358m)
Incremental new business long-term cash generation
APM REM

24.1p
(H1 2020: 23.4p)
Interim ordinary dividend per share

£527m
(H1 2020: £361m)
Operating profit
APM

91%
Combined Group Customer satisfaction score – telephony
REM

94%
Standard Life Customer satisfaction score – digital journeys
REM

OTHER PERFORMANCE INDICATORS

£(667)m
(H1 2020: £486m)
IFRS (loss)/profit after tax

£13.4bn
Group long-term free cash as at FY 2020
APM

£202m**
(H1 2020: £172m***)
New business contribution
APM

£304bn
(FY 2020: £338bn)
Assets under administration
APM

28%
(FY 2020: 28%)
Fitch financial leverage ratio
APM REM

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

All amounts throughout the report marked with APM are alternative performance measures. Read more on page 67.

* £412m of new business long-term cash generation comprises £206m completed in H1 2021 and a further £206m subsequently completed in July 2021 through an additional c.£1bn buy-in tranche of the Pearl Pension Scheme.

** £202m of new business contribution adjusted to include £93 million completed in July through an additional c. £1 billion buy-in tranche of the Pearl Pension Scheme.

*** £172m new business contribution in H1 2020 has been restated to include £102 million from Retirement Solutions.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

Phoenix has made strong progress against its strategic priorities in the first six months of 2021. We have delivered on our key attributes of cash, resilience and growth, while continuing to support our customers and people, and ensuring that sustainability is at the heart of our business.

DELIVERING CASH AND RESILIENCE

Cash and resilience are central to Phoenix's business model and it is our ability to extract predictable cash flows from our in-force business and deliver value-accretive management actions that underpin this. We have once again demonstrated this in the first half, delivering £872 million of cash generation, which positions us to deliver at the top-end of our £1.5-to-£1.6 billion target range for 2021.

Our unique approach to hedging market risks also continues to ensure that Phoenix's balance sheet remains resilient, despite the sustained market volatility. Our financial position remains strong, with a Solvency II surplus of £5.1 billion that reduced slightly from the full year due to a £0.2 billion debt repayment in March, and a Shareholder Capital Coverage Ratio ('SCCR') of 166% that is comfortably within our 140%-to-180% target range. We also continued to deliver value-accretive management actions, with £0.3 billion delivered in the first six months, with actions including illiquid asset origination, asset risk management and integration synergies.

In July, we announced the sale of Ark Life, the European closed book Heritage business acquired as part of ReAssure. The Group received an attractive price for the business, with total cash consideration of £197 million equating to 0.91x Solvency II Own Funds. The transaction accelerates the cash release from this business and the capital will be reinvested into higher return growth opportunities. It also simplifies our retained European operations and enables us to focus on delivering a set of management actions in Standard Life International to deliver a more capital and cost efficient platform that provides longer-term strategic optionality.

Both the Standard Life and ReAssure integrations continue to progress to plan, with c.90% of the targeted c.£1.2 billion of synergies now generated from the Standard Life integration and c.70% of ReAssure's c.£1.1 billion. Our market-leading M&A capability has also been clearly demonstrated through recouping 50% (£1.6 billion) of the £3.2 billion of consideration paid for ReAssure in cash generation in less than 12 months.

Phoenix also reached a key milestone in March with the submission of the application for the Group's Internal Model Harmonisation to the PRA, with a final decision expected by the end of September. The harmonisation brings together the legacy Phoenix and Standard Life internal models onto a single, more refined model that will enable us to better understand and manage our risks. It is expected to deliver c.£0.4 billion of up-front Solvency II capital benefit of which c.£0.1 billion will emerge as a cash benefit over time. It will also unlock a pipeline of future value-accretive management actions and be supportive of future M&A.

Finally, it was pleasing that, in recognition of our financial strength, resilient business model and operational performance, Fitch upgraded Phoenix's Insurer Financial Strength rating to AA- from A+ in July.

DELIVERING GROWTH

The investment we are making in our Open business is starting to yield tangible results, with £412 million of new business long-term cash generation ('LTCG') delivered to date. £206 million was achieved in the first half across our Open businesses, with a lower first half contribution from external BPAs, owing to a slow first-half market for all market participants. However, our BPA team accelerated the second buy-in tranche for c.£1 billion of pension scheme liabilities from our Pearl Pension Scheme, which we completed in July and delivered a further £206 million of long-term cash. In total, this equates to a 15% increase year-on-year in long-term cash generation, up from £358 million in the first half of 2020.

Our BPA business is the near-term driver of our Open business growth and is continuing to build and develop its capability. The team are now able to quote on deals of all sizes and complexities, meaning we will be able to quote on c.90% of deals in the market going forward, up from c.35% in 2020. In addition, with our new business pricing now reflecting the expected Internal Model Harmonisation efficiencies, the capital strain has reduced significantly to 6% across all of our deals in the period.

The continued development of our in-house asset management capability has enabled us to increase our illiquid asset origination by 67% year-on-year to £1.3 billion. Importantly, nearly £0.8 billion of this was long-term investment into ESG-related assets, more than doubling our investment in sustainable assets year-on-year.

It is also encouraging to see the increasing momentum we are building in our Workplace business, with a number of new scheme wins in the first half providing a platform for future growth. The recent award to Standard Life for Master Trust Offering of the Year by Pensions Age is also testament to the work we are doing to develop a truly market-leading proposition.

Finally, following its acquisition earlier this year, ownership of the Standard Life brand was transferred to Phoenix in May. It is a trusted and well known consumer brand that we are fully committed to investing in and will be a key driver of future growth. Integral to this investment will be an acceleration in our proposition innovation and the roll-out of enhanced technology for customers.

SUPPORTING OUR CUSTOMERS

Critical to our success is our focus on our customers. I was therefore delighted that our ongoing efforts to enhance the customer experience have been reflected in strong customer satisfaction scores of >90%, exceeding our targets.

We have also continued to invest in our customer propositions. In our Workplace business, we expanded in-scheme drawdown to 1.5 million additional workplace scheme members, made our ESG passive default fund available to our DC Master Trust members and expanded our range of self-select responsible investment funds. In our Customer Savings & Investments ('CS&I') business, we continue to test-and-learn with the launch of the HomeBuyer Hub and Money Mindset tools as part of our financial wellness offering. It is also great to see the investment we are making in our digital offerings is resonating with customers, with our enhanced Standard Life mobile app now supporting c.60% of all digital sessions and a 34% year-on-year increase in mobile app logins.

COMMITTING TO A SUSTAINABLE FUTURE

A core objective of Phoenix's wider sustainability strategy is to play our part in addressing the challenges of climate change and we have laid strong foundations in the first half of 2021 to help us deliver on our ambition here. We have already pledged to make our c.£300 billion investment portfolio net-zero carbon by 2050, and becoming public signatories to both the UN-Convened Net Zero Asset Owner Alliance and Race to Zero campaign this year further evidences our commitment.

As one of the industry's largest asset owners, it is imperative that we take a lead role in driving change, and our recent Open Letter sets out the expectations we have of our asset management partners. We will be working with our partners to find the solutions that will deliver portfolio decarbonisation and look forward to sharing these in the run up to the UN Climate Change Conference (COP26) later this year. Importantly, we will also be setting our own ambitious 2025 and 2030 decarbonisation targets for our investment portfolio over the coming months.

From an operational perspective we have made strong progress on the path to our target of being net-zero carbon from our own operations by 2025. The Group is on track to reduce its Scope 1 and 2 emissions from occupied premises per FTE by 20% during 2021, with all of our premises expected to be supplied with 100% renewable electricity by the end of the year.

INVESTING IN OUR PEOPLE AND CULTURE

In line with our ambition to make Phoenix the best place our colleagues have ever worked, we have continued to invest in our people. We are nurturing the excellent talent we already have in our business, whilst strengthening our current team with high calibre new appointments to bring in new expertise and perspectives.

We are also committed to making Phoenix a diverse and inclusive company. It is therefore great to see that our innovative diversity and inclusion data capture app, "Who We Are", has been completed by 75% of our colleagues, providing us with powerful data and insights to support us in delivering on our commitment. Women account for 29% of our Top 100 leaders, and whilst we won't be happy until this represents broader society, it is strong progress, up from 21% six months ago. We can also see that around 13% of our Top 100 leaders are ethnically diverse, which is already broadly in line with the wider UK population.

It is also pleasing to see that our investment in people and culture is recognised, with a further improvement in our strong colleague engagement score to 79%, up from 75% in 2020, and our status as a UK Top Employer maintained for the 10th year running.

STABLE AND SUSTAINABLE DIVIDEND

As a result of the continued strong financial performance and resilience of our business, the Board is pleased to declare an interim dividend of 24.1p per share. In line with the Group's stable and sustainable dividend policy, this is unchanged from the final dividend of 2020, but has increased by 3% compared to the 2020 interim owing to the value generated from the ReAssure acquisition.

OUTLOOK

Phoenix has a clear strategy that is focused on three key priorities; to optimise our in-force business; to deepen our customer relationships; and to acquire new customers. This in turn helps us deliver on our financial framework of cash, resilience and growth.

Our focus for the remainder of 2021 is on executing against our strategic priorities. The Group's strong cash generation in the first half has set us firmly on track to meet the top end of our £1.5-to-£1.6 billion target range for 2021. We will continue to optimise our in-force business for cash and resilience as we deliver on our pipeline of management actions and progress our integration programmes. In parallel, we will advance our growth strategy by investing in our Open business and the Standard Life brand to help us deliver incremental new business cash generation, as we seek to offset the Heritage run-off and prove 'the wedge'. We will also continue to assess value-accretive M&A opportunities, which we see as a core part of our strategy.

Guided by our purpose of 'helping people secure a life of possibilities', we will also be ensuring that we deliver better outcomes and enhanced propositions for our customers, that we fulfil our sustainability commitments and set ambitious near term decarbonisation targets for our investment portfolio, as well as continuing to invest in our people and culture.

LAUNCHING PHOENIX INSIGHTS

In support of our purpose, I am delighted to announce that we are launching a new think tank later this year, called Phoenix Insights. Life expectancy in the UK has risen dramatically over the past century. These longer lives are the gift of advances in public health, living standards, nutrition, and medical science, but we are not yet structuring our society and our lives, in ways that help us to make the most of that gift.

Phoenix Insights will be a new centre for research, ideas and public engagement that is dedicated to catalysing the change, and innovation, needed across society, to enable us all to live better, longer lives. I am honoured to be chairing an expert advisory committee, that brings together some of the most distinguished experts in this field. I look forward to Phoenix Insights delivering some truly impactful research, informing the public debate, and, of course, enabling Phoenix to develop the propositions that will help our customers to enjoy their better, longer lives.

THANK YOU

Finally, I would like to take this opportunity to thank my colleagues throughout the Group for their hard work and dedication during the first half of 2021. I look forward to continuing with the evolution of Phoenix during the second half of the year and building on our position as the UK's largest long-term savings and retirement business.

Andy Briggs
Group Chief Executive Officer

CASH GENERATION

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

Please see the Alternative Performance Measure ('APM') section on page 67 for further details of this measure. Maintaining strong cash flow delivery underpins debt servicing and repayments, shareholder dividends as well as opportunities for further M&A and investment in new business.

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

CASH RECEIPTS

Cash generated by the operating companies during the period was £872 million (HY20: £433 million), including the contribution of the ReAssure business acquired in July 2020.

The Group set a one year cash generation target of £1.5-to-£1.6 billion for 2021 and based on performance in the first half of the year, is on track to meet the top end of this range.

The Group set a target to deliver £4.4 billion of cash generation in the period 2021-2023. The resilience of the 2021-2023 target is demonstrated by the illustrative stress testing in the table at the end of this section.

	Half year ended 30 June 2021 £m	**Half year ended** 30 June 2020 **£m**
Cash and cash equivalents at 1 January	**1,055**	275
Operating companies' cash generation:		
Cash receipts from Life Companies	**872**	483
Cash remittances to Standard Life International Designated Activity Company ('SLIDAC')	**–**	(50)
Total cash receipts[1]	**872**	433
Uses of cash:		
Operating expenses	**(44)**	(19)
Pension scheme contributions	**(4)**	(23)
Debt interest	**(123)**	(56)
Non-operating net cash (outflows)/inflows	**(154)**	50
Uses of cash before debt repayments and shareholder dividend	**(325)**	(48)
Shareholder dividend	**(241)**	(169)
Total uses of cash before debt repayments and BPA activity	**(566)**	(217)
Debt repayment	**(200)**	–
Debt issuance (net of fees)	**–**	1,445
Support of BPA activity	**(17)**	(90)
Cash and cash equivalents at 30 June	**1,144**	1,846

1 Total cash receipts include £40 million received by the holding companies in respect of tax losses surrendered (HY20: £82 million)

USES OF CASH

The operating expenses of £44 million (HY20: £19 million) principally comprise corporate office costs, net of income earned on holding company cash and investment balances. Operating expenses increased compared to the previous period due to the enlarged scale of the business following the acquisition of the ReAssure businesses.

Annual pension scheme contributions of £4 million (HY20: £23 million) were made during the year and include total contributions of £3 million into the Abbey Life Scheme and £1 million into the ReAssure Staff Pension Scheme. The reduction compared to the prior period reflects that no further contributions are due to the Pearl Group Staff Pension Scheme following the Commitment agreement entered into with the Scheme Trustees in the second half of 2020.

Debt interest of £123 million (HY20: £56 million) increased in the year as a result of a full coupon on the US$750 million Tier 1 bond issued in January 2020, coupons on the £500 million Tier 2 bond issued in April 2020 and coupons on the US$500 million Tier 2 bond issued in June 2020. Additionally debt interest includes the semi-annual coupon paid on three debt instruments which were substituted to the Group as part of the acquisition of the ReAssure businesses (£250 million Tier 2, £500 million Tier 2 and £250 million Tier 3).

NON-OPERATING NET CASH (OUTFLOWS)/INFLOWS

Non-operating net cash outflows of £154 million (HY20: £50 million net cash inflow) principally comprises £130 million (HY20: £67 million) of recharged staff costs and Group expenses associated with corporate-related projects, including the transition programmes. It also includes the final settlement of a creditor balance of £68 million recognised at 31 December 2020 with Abrdn plc ('Abrdn') (formerly Standard Life Aberdeen plc) relating to amounts due under indemnity arrangements pertaining to FCA Thematic Review findings in the Group's subsidiary Standard Life Assurance Limited ('SLAL'). These amounts have been partly offset by £53 million received from Abrdn as part of a total cash consideration of £115 million associated with entering into a new binding agreement to simplify the strategic partnership between the two groups and dispose of the Wrap Self Invested Personal Pension ('Wrap SIPP'), Onshore Bond and UK Trustee Investment Plan ('TIP') businesses, further details of which are set out in note 2.1 of the condensed consolidated financial statements. The remaining £62 million was paid to SLAL. Net other outflows total £9 million (HY20: £2 million net inflows).

SHAREHOLDER DIVIDEND

The shareholder dividend of £241 million represents the payment in May 2021 of the 2020 final dividend of 24.1 pence per share.

DEBT REPAYMENT

The Phoenix Life Limited subordinated loan notes of £200 million were repaid in March 2021 at their final call date.

DEBT ISSUANCE (NET OF FEES)

The £1,445 million debt issuance for HY20 comprises the proceeds of the £572 million (US$750 million) Tier 1 bond in January 2020, the £500 million Tier 2 bond issuance in April 2020 and the £398 million (US$500 million) Tier 2 bond issuance in June 2020, net of related issuance costs.

SUPPORT OF BPA ACTIVITY

£17 million (HY20: £90 million) of funding has been provided to the life companies to support BPA new business in the period.

ILLUSTRATIVE STRESS TESTING OF 2021-23 CASH GENERATION TARGET

Illustrative stress testing[1]	1 January 2021 to 31 December 2023 £bn
Base case three-year cash guidance	**4.4**
Following a 20% fall in equity markets	**4.5**
Following a 12% fall in property values[2]	**4.2**
Following a 73bps rise in long-term interest rates[3]	**4.7**
Following a 88bps fall in long-term interest rates[3]	**4.1**
Following a 72bps rise in long-term inflation[4]	**4.3**
Following credit spread widening[5]	**4.2**
Following credit downgrade: immediate full letter downgrade on 20% of portfolio[6]	**3.9**
Following a 6% decrease in annuitant mortality rates[7]	**3.6**
Following a 10% change in lapse rates[8]	**4.2**

1 Assumes stress occurs on 1 July 2021 and that there is no market recovery.
2 Represents an average fall in property values of 12%.
3 Assumes the impact of a dynamic recalculation of transitionals and an element of dynamic hedging which is performed on a continuous basis to minimise exposure to the interactions of rates with other correlated risks including longevity.
4 Reflects a structural change in long-term inflation with an increase of 72bps across the curve.
5 Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.
6 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g from AAA to AA, AA to A etc). This sensitivity assumes no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.
7 Equivalent of six months increase in longevity applied to the annuity portfolio.
8 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

ASSETS UNDER ADMINISTRATION AND NEW BUSINESS

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

AUA provides an indication of the potential earnings capability of the Group arising from its insurance and investment business, whilst AUA flows provide a measure of the Group's ability to deliver new business growth. Please see the APM section on page 67 for further details of this measure.

GROUP AUA

Group AUA as at 30 June 2021 was £304.4 billion (FY20: £337.7 billion). The decrease over the period is set out in the table below and is largely driven by the agreed transaction with Abrdn to sell the Wrap SIPP, Onshore Bond and TIP businesses. Whilst this transaction is yet to complete, the economic interest in this business transferred to Abrdn effective from 1 January 2021 via a profit transfer arrangement, and the related assets have therefore been deducted from the Group AUA.

A consistent approach has been taken to Ark Life Assurance Company DAC ('Ark Life') following the Group's announcement in July that it had entered into an agreement to dispose of that business with the sale expected to be completed by early 2022.

Movement in AUA	£bn
AUA at 1 Jan 2021	**337.7**
Agreed disposal of Wrap SIPP, Onshore Bond and TIP	(29.1)
Agreed disposal of Ark Life	(1.8)
Adjusted AUA at 1 Jan 2021	**306.8**
UK Heritage net flows	(5.8)
UK Open inflows	4.5
UK Open outflows	(6.0)
Europe net flows	0.4
Other movements including markets	4.5
AUA at 30 June 2021	**304.4**

UK HERITAGE NET FLOWS

UK Heritage net outflows of £(5.8) billion (HY20: £(2.4) billion[1]) reflect policyholder outflows on claims such as maturities and surrenders, net of total premiums received in the period from in-force contracts. The acquisition of the ReAssure Heritage business increased net outflows relative to the prior year.

UK OPEN FLOWS

The UK Open segment experienced gross inflows of £4.5 billion (HY20: £5.9 billion[1]) during the period, of which £2.3 billion (HY20: £3.7 billion) was received in respect of new contracts transacted in the period. The exclusion of Wrap SIPP, Onshore Bond and TIP flows following the agreement to dispose of these businesses is the main driver for lower gross inflows compared to the prior year, partly offset by the impact of Workplace new scheme wins.

Retirement Solutions, which encompasses our Annuity and BPA business, experienced £0.8 billion (HY20: £1.4 billion) of gross inflows. This includes £0.4 billion (HY20: £1.1 billion) of new business inflows arising from BPA transactions completed in the period.

Gross inflows in the Workplace product of £2.5 billion (HY20: £2.4 billion) are slightly up on the prior period. We continue to make progress in this area with new scheme wins in the first half providing a platform for future growth and improved gross inflows are a function of improved pricing and propositions.

Gross inflows in the Customer Savings & Investment ('CS&I') business unit of £1.1 billion (HY20: £2.1 billion) reflects only Retail business this year, due to the proposed sale of the Wrap SIPP, Onshore bond and TIP businesses. Retail business however, experienced improved inflows in the period reflecting enhancements to our proposition.

Outflows for the UK Open business were £(6.0) billion (HY20: £(4.1) billion[1]) and reflect the inclusion of outflows from the ReAssure Annuity business post acquisition, together with the impact of certain large schemes moving from our Workplace product to other providers. These scheme moves were delayed due to the COVID-19 pandemic and therefore reflect decisions taken based on our legacy proposition. The UK Open business has therefore seen net outflows in the period of £(1.5) billion (HY20: £1.8 billion net inflows).

1 HY20 has been restated to reflect the revised definition of the UK Open segment which now includes the Group's annuity and BPA business.

Business review

EUROPE NET FLOWS

The European business contributed a small net inflow of £0.4 billion (HY20: £0.1 billion) to the Group's AUA driven by strong inflows from our Offshore bond product.

OTHER MOVEMENTS INCLUDING MARKETS

AUA increased by £4.5 billion (HY20: £0.5 billion) as a result of other movements, driven by the net positive impacts of market movements, with the impact of rising equity markets being the significant driver, partially offset by the impact of rising yields on the value of the Group's debt security portfolios, and the strengthening of sterling in the period.

INCREMENTAL LONG-TERM CASH GENERATION

Our incremental long-term cash generation measure demonstrates the impact on the Group's future cash generation arising as a result of new business transacted in the year. It is stated on an undiscounted basis. Incremental long-term cash generation increased to £412 million (HY20: £358 million[1]).

The incremental long-term cash generation split by business unit is shown in the table below and has been adjusted by £206 million for the second tranche of the Pearl Group Staff Pension Scheme buy in transaction that completed in July.

External BPA transactions were completed in the first six months with combined premiums of £431 million. The capital strain on these external deals has been reduced from 8% in 2020 to 6% this period, primarily as new business pricing now reflects our Harmonised Internal Model.

Like most market participants, we saw a slow market in the first half of the year for BPA transactions and therefore decided to accelerate the second tranche of the Pearl Group Staff Pension Scheme buy-in to July 2021, with premiums of £998 million. Similar to our external deals, the capital strain on this tranche has reduced substantially relative to the initial tranche in 2020, down from 12% last year to 6%, reflecting the expected Harmonised Internal Model efficiencies. Looking forward, we are committed to executing the buy-in of the remaining 40% of pension scheme liabilities no later than 2023, with the timing and size of future tranches subject to agreement with the pension trustee.

For our Workplace business unit incremental long-term cash generation has remained resilient with new scheme wins evidencing progress with our proposition.

The reduction in CS&I incremental long-term cash generation reflects the sale of the Wrap SIPP, Onshore bond and TIP businesses. Adjusting for this, the Group's Retail business delivered increased long-term cash generation in the period.

Higher sales volumes in our SunLife business have also supported an increase in incremental long-term cash generation in the period.

Business unit	**Half Year ended 30 June 2021 £m**	Half Year ended 30 June 2020 Restated[1] £m
Retirement Solutions	**80**	236
Workplace	**70**	67
Customer Savings & Investment (CS&I)	**18**	26
Europe	**16**	14
SunLife	**22**	15
Total incremental long-term cash generation	**206**	358
Pearl Scheme buy in second tranche (July 2021)	**206**	–
Total incremental long-term cash generation adjusted	**412**	358

NEW BUSINESS CONTRIBUTION

We monitor new business contribution as the Group's measure of the future value delivered through the writing of new business.

New business contribution represents the increase in Solvency II shareholder Own Funds (net of tax) arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net of 'Day 1' acquisition costs and is calculated as the value of expected cash flows from new business sold, discounted at the risk-free rate.

New business contribution for the period was £202 million (HY20: £172 million[1]), which consistent with incremental long-term cash generation is stated on an adjusted basis to include £93 million for the second tranche of the buy in transaction with the Pearl Group Staff Pension Scheme which transacted in July.

1 HY20 has been restated to reflect the revised definition of the UK Open segment which now includes the Group's annuity and BPA business.

CAPITAL MANAGEMENT

GROUP SOLVENCY II SURPLUS

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

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

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

The Standard Life Assurance businesses determine their capital requirements in accordance with an approved Internal Model ('Standard Life Internal Model'), which was in place prior to the acquisition of the Standard Life Assurance businesses. The one exception to this is SLIDAC, the Group's Irish subsidiary, which remains on Standard Formula.

The Standard Formula is also used in the determination of the capital requirements for the ReAssure businesses.

As a result, the Group currently uses a Partial Internal Model to calculate Group SCR, aggregating outputs from the existing Phoenix Internal Model, the Standard Life Internal Model and the Standard Formula, without further diversification. The Group submitted its application to the PRA for a Harmonised Internal Model that will result in the Group transitioning from the current two Internal Models into a single Internal Model during the period. A decision is due from the PRA by the end of September 2021.

CHANGE IN GROUP SOLVENCY II SURPLUS (ESTIMATED)

The Group Solvency II surplus has decreased to £5.1 billion (FY20: £5.3 billion) during the period.

The Group Solvency II surplus position on a regulatory basis is set out in the table below:

	Estimated position as at 30 June 2021 £bn	31 December 2020 £bn
Own Funds[1]	**15.6**	16.8
SCR[2]	**(10.5)**	(11.5)
Surplus[3]	**5.1**	5.3

1 Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months.
2 The SCR reflects the risks and obligations to which Phoenix Group Holdings plc is exposed.
3 The surplus equates to a regulatory coverage ratio of 148% as at 30 June 2021 (FY20: 147%).

The change in Group Solvency II Surplus is set out in the table below:

	£bn
Surplus at FY20	**5.3**
Surplus emerging and release of capital requirements	0.3
Management actions	0.3
Economic variances	0.1
Financing, dividends, pensions and corporate costs	(0.4)
Assumption changes	(0.1)
Debt repayment	(0.2)
Other variances	(0.2)
Surplus at HY21 (estimated)	**5.1**

Surplus generation and the impact of the reduction in capital requirements for the Group added £0.3 billion to the surplus during the period.

Management actions undertaken increased the surplus by £0.3 billion. This includes £0.1 billion in respect of capital synergies associated with the acquisition of the ReAssure and Standard Life businesses. The £0.2 billion of other management actions includes additional strategic asset allocation activities and the optimisation of matching adjustment portfolios.

Economic variances increased the surplus by £0.1 billion driven by the net favourable impact of economic and market movements in the period, notably increasing yields, property prices and improved equity markets but this was limited by our extensive hedging approach which seeks to deliver a resilient balance sheet.

Financing costs, pension contributions, dividend payments (including a £241 million accrual for the 2021 interim dividend) and corporate expenses amount to £0.4 billion and reduced the surplus in the period.

Assumption changes decreased the surplus by £0.1 billion including the adverse impact of the increase in the rate of corporation tax from April 2023 to 25% as announced in the March 2021 budget.

The debt repayment reflects the Phoenix Life Limited subordinated loan notes which were repaid in March 2021, reducing the surplus by £0.2 billion.

The adverse impact of other variances reduced the surplus by £0.2 billion, this is principally driven by a temporary capital strain from Group currency hedges which were implemented earlier this year and which is expected to unwind upon implementation of the Harmonised Internal Model later this year.

ILLUSTRATIVE STRESS TESTING OF GROUP SOLVENCY II SURPLUS

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios.

The results of that stress testing are provided in the table below and demonstrate the resilience of the Group's Solvency II surplus.

Illustrative stress testing[1]	Estimated PGH Solvency II Surplus £bn
Base: 1 July 2021	**5.1**
Following a 20% fall in equity markets	**5.1**
Following a 12% fall in property values[2]	**4.9**
Following a 73bps rise in long-term interest rates[3]	**5.2**
Following an 88bps fall in long-term interest rates[3]	**5.0**
Following a 72bps rise in long-term inflation[4]	**5.0**
Following credit spread widening[5]	**4.8**
Following credit downgrade: immediate full letter downgrade on 20% of portfolio[6]	**4.7**
Following a 6% decrease in annuitant mortality rates[7]	**4.4**
Following a 10% change in lapse rates[8]	**4.9**

1 Assumes stress occurs on 1 July 2021 and that there is no market recovery.
2 Represents an average fall in property values of 12%.
3 Assumes the impact of a dynamic recalculation of transitionals and an element of dynamic hedging which is performed on a continuous basis to minimise exposure to the interactions of rates with other correlated risks including longevity.
4 Reflects a structural change in long-term inflation with an increase of 72bps across the curve.
5 Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.
6 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g from AAA to AA, AA to A etc). This sensitivity assumes no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.
7 Equivalent of six months increase in longevity applied to the annuity portfolio.
8 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and unsupported Group pension schemes of £3.2 billion (FY20: £2.8 billion). Surpluses within the with-profit funds and the Group Pension Schemes, whilst not included in the Solvency II surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

In the calculation of the Solvency II surplus, the SCR of the unsupported with-profit funds and the unsupported Group Pension Schemes is included, but the related Own Funds are recognised only to a maximum of the SCR amount. This approach suppresses the regulatory capital coverage ratio calculated as eligible own funds as a percentage of SCR. As a result, the Group focuses on a shareholder view of the capital coverage ratio which it considers to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of Eligible Own Funds to SCR adjusted to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the unsupported Group Pension Schemes.

The Group targets a shareholder capital coverage ratio in the range of 140% to 180%. As at 30 June 2021, the Group Shareholder Capital Coverage ratio is 166% (FY20: 164%). This is set out in the table below:

	30 June 2021 (estimated)	30 December 2020
Own Funds	**12.7**	13.6
SCR	**(7.6)**	(8.3)
Surplus	**5.1**	5.3
Group Shareholder Capital Coverage Ratio	**166%**	164%

LIFE COMPANY FREE SURPLUS

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

As at 30 June 2021, the Life Company Free Surplus is £2.8 billion (FY20: £2.9 billion). The table below analyses the movement during the period.

As the analysis is presented on a net of tax basis, cash remittances to the holding companies excludes £40 million of amounts received by the holding companies in respect of tax losses surrendered to the Life companies that is included in the Group's Cash Generation metric.

	Estimated position as at 30 June 2021 £bn
Opening Free Surplus	**2.9**
Surplus generation and run-off of capital requirements	**0.4**
Management actions	**0.3**
Economics, financing and other	**–**
Free Surplus before cash remittances	**3.6**
Cash remittances to holding companies	**(0.8)**
Closing Free Surplus	**2.8**

IFRS RESULTS

OPERATING PROFIT

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

Please see the APM section on page 67 for further details of this measure.

The Group generated an increased operating profit of £527 million (HY20: £361 million), reflecting the contribution of the ReAssure businesses following their acquisition on 22 July 2020, and partly offset by lower Bulk Purchase Annuity ('BPA') transaction activity in the period.

The IFRS loss after tax attributable to owners is £(667) million (HY20: £486 million profit). The decrease primarily reflects adverse investment return variances arising on Group hedging positions that are calibrated to protect the Solvency II capital position rather than the IFRS balance sheet compared to positive variances in the prior period. In addition, the HY21 result reflects increased amortisation charges on intangible assets and higher financing costs on new debt issuances pertaining to the acquisition of the ReAssure businesses. These factors have been partly offset by the increased operating profit described above together with a gain recognised on completion of the transaction with Abrdn plc to simplify the strategic partnership of £110 million.

BASIS OF OPERATING PROFIT

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

The principal assumptions underlying the calculation of the long-term investment return are set out in note 4 to the IFRS condensed consolidated financial statements.

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

The HY20 figures for the operating profit segments have been restated to reflect strategic changes whereby the Group's annuity and BPA business is now disclosed within the UK Open segment, where previously it was included in UK Heritage.

As at 31 December 2020, following the acquisition of the ReAssure businesses, the Group disclosed a separate reporting segment that included all the acquired ReAssure businesses. During the half year ended 30 June 2021, the Group has reassessed its operating segments to reflect the way the Group is now being managed, and the ReAssure businesses are now incorporated into the UK Heritage and UK Open reporting segments. As at 30 June 2021, the Group now has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services.

Profit/(loss) after tax	**Half Year ended 30 June 2021 £m**	Half Year ended 30 June 2020 Restated[1] £m
UK Heritage	**375**	118
UK Open	**148**	221
Europe	**30**	20
Management Services companies	**2**	19
Group costs	**(28)**	(17)
Operating profit	**527**	361
Investment return variances and economic assumption changes on long term business	**(807)**	600
Variance on owners' funds	**(17)**	27
Amortisation and impairment of acquired in-force business and other intangibles	**(299)**	(184)
Other non-operating items	**28**	(65)
(Loss)/profit before finance costs and tax attributable to owners	**(568)**	739
Finance costs attributable to owners	**(111)**	(76)
(Loss)/profit before the tax attributable to owners of the parent	**(679)**	663
Profit/(loss) before tax attributable to non-controlling interests	**51**	(20)
(Loss)/profit before tax attributable to owners	**(628)**	643
Tax (charge) attributable to owners	**(39)**	(157)
(Loss)/profit after tax attributable to owners	**(667)**	486

1 During the year, the Group reassessed its operating segments as a result of strategic developments. Specifically, the categorisation of the provision of annuities to existing policyholders with vesting products and from Bulk Purchase Annuity contracts has been revised such that this business is now included within the UK Open segment instead of within the UK Heritage segment. Comparative information has been restated to reflect this new presentation.

Business review

UK HERITAGE OPERATING PROFIT

The UK Heritage business segment comprises the With-profit, Non-profit and Unit linked business for which the Group does not actively sell new life or pension policies, and which is therefore expected to run-off gradually over time. UK Heritage delivered an operating profit of £375 million (HY20: £118m), with the increase principally reflecting the contribution of the ReAssure Heritage business, following its acquisition in July 2020.

UK OPEN OPERATING PROFIT

The Group's UK Open business segment delivered an operating profit of £148 million (HY20: £221 million[1]). This includes operating profits generated across the Retirement Solutions (including BPA), Workplace and CS&I business units, and under the Group's SunLife brand. The decrease in operating profit relative to the prior period principally reflects a decrease in new business profits arising from a lower volume of BPA transactions written in the first half of the year, together with the impact of increased spend on the development of our proposition in Workplace and CS&I. These factors have been partly offset by the contribution of the ReAssure annuity business.

EUROPE OPERATING PROFIT

The Europe business segment which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £30 million during the period (HY20: £20 million). The increase in the operating profit relative to the prior period is primarily driven by the positive impact of actuarial assumption updates and the delivery of management actions.

MANAGEMENT SERVICES COMPANIES OPERATING PROFIT

The operating profit for management services of £2 million (HY20: £19 million) comprises income from the life and holding companies in accordance with the respective management services agreements less fees related to the outsourcing of services and other operating costs. The decrease compared to the prior period reflects, a re-phasing of income from the life companies under revised management services agreements and the impacts of run-off.

GROUP COSTS

Group costs in the period were £28 million (HY20: £17million) and mainly comprise corporate expenses and project costs recharged from the service companies, the returns on the scheme surpluses/deficits of the Group staff pension schemes and are stated net of returns earned on holding company assets. The increase in costs compared to the prior period principally reflects the inclusion of corporate and project costs associated with the acquired ReAssure businesses.

INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES ON LONG-TERM BUSINESS

The net adverse investment return variances and economic assumption changes on long-term business of £807 million (HY20: £600 million positive) primarily arise as a result of negative investment return variances arising from the Life company hedging positions. The impact of equity and interest rate movements on future profits in relation to with-profit bonuses and unit-linked charges is hedged in order to benefit the regulatory capital position. The impact of market movements on the value of the related hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. Such future profits are actively valued under Solvency II requirements but are not on an IFRS basis. This leads to volatility in the Group's IFRS results. As a result of improving equity markets and increasing yields in the first half of the year, losses have been experienced on hedging positions held by the Life companies, the absolute quantum of which has also been impacted through the extension of our hedging strategy to the acquired ReAssure businesses. This compares to the experience in the first half of 2020 where declining equity markets and falling yields gave rise to IFRS gains on our hedging positions.

Continued strategic asset allocation initiatives undertaken by the Group, including investment in higher yielding assets and credit management actions provided a partial offset to the adverse variances experienced.

VARIANCE ON OWNERS' FUNDS

The adverse variance on owners' funds of £17 million (HY20: £27 million positive) is driven by losses on hedging position held within the Shareholder Funds. Consistent with the impact seen in the long-term business, this reflects rising equity markets and yields. The prior year included gains arising on derivative instruments entered into on announcement of the ReAssure acquisition to protect the Group's exposure to equity risk in the period prior to completion.

AMORTISATION AND IMPAIRMENT OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates. Amortisation of acquired in-force business during the first half of the year totalled £288 million (HY20: £174 million) with the increase from the prior period driven by additional amortisation charges on intangible assets recognised on acquisition of ReAssure. The increase also reflects an impairment charge for acquired in-force business of £18 million in respect of the Ark Life business which was classified as held for sale in the period (see note 2.2 for further details). Amortisation of other intangible assets totalled £11 million in the year (HY20: £10 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £28 million positive (HY20: £65 million negative) includes a net £110 million gain recognised on the transaction to simplify the strategic relationship with Abrdn plc, including the proposed disposal of the Wrap SIPP, Onshore bond and TIP businesses, offset by £35 million related to the provision for costs associated with the delivery of the Group Target Operating Model for IT and Operations , £27 million of other corporate project costs, £14 million of costs associated with the integration of the ReAssure businesses and costs of £9 million associated with the on-going integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019. The remaining balance relates to net other one-off items totalling a gain of £3 million.

The prior period result of £65 million negative included £48 million related to the provision of costs associated with the delivery of the Group Target Operating Model for IT and Operations, £7 million of costs associated with the acquisition of ReAssure, other corporate project costs of £4 million and net other items totalling an expense of £6 million.

1 During the year, the Group reassessed its operating segments as a result of strategic developments. Specifically, the categorisation of the provision of annuities to existing policyholders with vesting products and from Bulk Purchase Annuity contracts has been revised such that this business is now included within the UK Open segment instead of within the UK Heritage segment. Comparative information has been restated to reflect this new presentation.

FINANCE COSTS

Finance costs of £111 million (HY20: £76 million) have increased by £35 million, reflecting a full six months of interest charges on the debt issued in 2020, together with financing costs associated with the three debt agreements which were substituted to the Group as part of the acquisition of the ReAssure businesses in July 2020.

TAX CREDIT ATTRIBUTABLE TO OWNERS

The Group's approach to the management of its tax affairs is set out in its Tax Strategy document which is available in the corporate responsibility section of the Group's website. The Group's tax affairs and tax controls are managed by an in-house tax team who report on them to the Board and the Audit Committee on a regular basis throughout the year. The Board believes that its Tax Strategy accords with the Group's approach to its wider Corporate Social Responsibility. The Tax Strategy was refreshed in 2021 and published in accordance with the relevant statutory requirements. Implicit in the Group's Tax Strategy and the management of its tax affairs is a desire for greater transparency and openness that will help the Group's stakeholders better understand the published tax numbers. In this way the Group aims to participate in a substantive manner with HMRC and other insurance industry stakeholders on consultative documents and tax law changes that potentially impact on the insurance sector.

The Group's insurance operations are primarily based in the UK and are liable to tax in accordance with applicable UK legislation. Following the acquisition of the Standard Life Assurance businesses, the Group's overseas operations have increased, in Ireland and Germany in particular. The ReAssure businesses acquired in July 2020 are also primarily based in the UK. The Group complies with the local tax obligations in the jurisdictions in which it operates.

The Group tax charge for the period attributable to owners is £39 million (HY20: £157 million tax charge) based on a loss (after policyholder tax) of £628 million (HY20: profit of £643 million). The tax adjustments to the Owners' profit before tax are primarily due to a deferred tax charge for the impact of the increase in the corporate tax rate to 25% with effect from 1 April 2023 of £166 million, non-taxable income and gains of £(7) million, amortisation on acquired in-force business at a rate other than 19% of £13 million, a prior year credit for shareholders £(3) million, deferred tax credit for recognition of previously unrecognised tax losses of £(6) million, the impact of non-tax deductible costs of £5 million, current year losses not valued of £7 million, deferred consideration of £(12) million and profits taxed at a rate other than the 19% statutory corporate tax rate of £(3) million.

FINANCIAL LEVERAGE

The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions. The financial leverage ratio as at 30 June 2021 (as calculated by the Group in accordance with Fitch Ratings' stated methodology) is 28% (FY20: 28%). This is within the target range management considers to be associated with maintaining an investment grade rating of 25% to 30%.

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

RISK MANAGEMENT FRAMEWORK

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

Good progress has been made on the implementation of the Risk Management Framework in ReAssure with the alignment of the Risk Universe, Policy Framework, Minimum Control Standards and Risk System with a common approach to risks and controls and risk reporting across the business.

RISK ENVIRONMENT

The overall risk environment remains heightened, as was reported in the Group's 2020 Annual Report and Accounts; this reflects continued uncertainty relating to COVID-19 and the resulting impacts on the economy, our customers and our colleagues, in addition to the scale of internal demands from the extent of change in the organisation.

The rollout of COVID-19 vaccines continues to be positive; however, there is significant uncertainty over the timing of any economic recovery and the consequences of the pandemic remain unclear from a financial and societal perspective. The potential for adverse market impacts from the pandemic remains high as lack of international vaccination could give rise to vaccine resistant strains or drive geo-political division.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's principal risks and uncertainties are detailed in this section, together with their potential impact, mitigating actions in place and any change in risk exposure since the Group's 2020 Annual Report and Accounts, published in March 2021. A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of an entity, including risks that would threaten its business model, future performance, solvency or liquidity.

The Board Risk Committee has carried out a robust assessment of principal risks and emerging risks. As a result of this review, 'Cyber risk' which was previously considered under the 'operational resilience' principal risk, is now treated as a separate principal risk in its own right. The Group now has 13 principal risks.

Strategic priorities referenced in the principal risk section below are as follows:

1. Manage our capital position
2. Create value and deliver dependable cash generation
3. Meet changing customer needs
4. Putting sustainability at the heart of our business
5. Inspire our people

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
STRATEGIC RISK				
The Group fails to make further value adding acquisitions or effectively transition acquired businesses	The Group is exposed to the risk of failing to drive value through inorganic growth opportunities, including acquisitions of life and pensions books of business. The transition of acquired businesses into the Group, including customer migrations, could introduce structural or operational challenges that result in the Group failing to deliver the expected outcomes for customers or value for shareholders.	The Group continues to assess new inorganic growth opportunities and applies a clear set of criteria to assessing these opportunities. Our acquisition strategy is supported by the Group's financial strength and flexibility, its strong regulatory relationships and its track record of managing customer outcomes and generating value. The financial and operational risks of target businesses are assessed in the acquisition phase and potential mitigants are identified. Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations. Customer migrations are planned thoroughly with robust execution controls in place. Lessons learned from all previous migrations are applied to future activity to continuously strengthen our processes. The Group continues to actively manage operational capacity required to deliver its strategy, including transition activities.	1 2 3	No change The Standard Life Assurance integration is progressing well and the Group remains on track to deliver its synergy targets. In the first half of 2021 the integration of ReAssure plc to the wider Group has continued to progress steadily. Integration of the Group's Corporate functions and Shared Services has commenced and will continue over the next 12 months. The alignment to and embedding of the Group's Risk Management Framework within ReAssure plc continues to progress, remaining on target for completion by end-2021.
The Group fails to deliver long-term growth in its Open business	The Group's Open business has strong foundations and is central to our purpose of helping people secure a life of possibilities. It is also fundamental to our plans of delivering "the Wedge" which assumes that Open business growth can offset the run-off from the in-force business and bring sustainability to organic cash generation. Significant negative reputational damage could occur if the Open business fails to deliver against its strategic objectives, particularly as the Group seeks to promote a 'customer obsessed' mind-set underpinned by strong retention and consolidation as customers journey to and through retirement.	The Group's new Business Unit structure brings renewed focus and accountability. The key areas of growth are Workplace, Customer Savings & Investments and Retirement Solutions. Each Business Unit holds an annual strategy setting exercise to consider customer needs, the interests of shareholders, the competitive landscape and the Group's overall purpose and objectives. As part of the Annual Operating Plan the Group is committed to making significant investment in our Open business which will include propositions which are driven by customer insight. The Group is established in the Bulk Purchase Annuity ('BPA') market and continues to invest in its operating model to further strengthen its capability to support its growth plans. For new BPA business, the Group continues to be selective and proportionate, focusing on value not volume, by applying the Group's rigorous Capital Allocation Framework.	2 3	No Change In the first half of 2021 the Group acquired ownership of the Standard Life brand from Abrdn plc. The brand is central to our Open business plans, will elevate our market presence and enhance the Standard Life experience for our customers, clients, financial advisers and employee benefit consultants. The Group will continue to develop its Workplace propositions under the Standard Life brand and strengthen our position as a leading pensions provider. As part of the acquisition of the brand, the relevant marketing, distribution and data team members transferred to the Group, bringing considerable subject matter expertise into Phoenix and enhancing our Open business capabilities. The Group completed external bulk annuity transactions in the first half of 2021 with a combined premium of £431 million.

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
The Group's Strategic Partnerships fail to deliver the expected benefits	Our strategic partnerships are a core enabler for delivery of the Group's strategy; they allow us to meet the needs of our customers and clients and deliver value for our shareholders. The Group's end state operating model will leverage the strengths of our strategic partners whilst retaining in-house key skills which differentiate us. There is a risk that the Group's strategic partnerships do not deliver the expected benefits. Some of our key strategic partnerships include: **Abrdn plc:** Provides investment management services to the Group including the development of investment solutions for our customers. **TCS:** Our enlarged partnership with TCS is also expected to support growth plans for our Open business, enabling further digital and technology capabilities to be developed to support enhanced customer outcomes. **HSBC:** The Group is continuing its plan to transfer all fund-accounting services to HSBC, enlarging and enhancing our current partnership.	The Group has in place established engagement processes with Abrdn plc to oversee and develop the strategic partnership. These processes will be adapted to reflect the new simplified and extended strategic partnership between the Group and Abrdn plc that was announced in February 2021. The Group's engagement with Diligenta, and its parent TCS, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of our enlarged partnership. We have in place established processes to oversee services provided by HSBC.	2 3 4	No change This principal risk was rated as 'Risk Improved' in the 2020 Annual Report and Accounts, there has been no change to this rating. The factors contributing to this rating include the changes announced by the Group and Abrdn plc in February 2021 to simplify and extend the strategic partnership which led to an improvement in this risk being reported in the 2020 Annual Report & Accounts. This improved position has been maintained and activities to implement the changes announced in February are underway. The Group continues to effectively develop the partnership with TCS as they support our strategic deliverables. Both parties continue to monitor potential COVID-19 impacts with actions being taken to protect strategic and BAU activity.
The Group does not have sufficient capacity and capability to fully deliver its significant change agenda which is required to execute the Group's strategic objectives	The Group's ability to deliver change on time and within budget could be adversely impacted by insufficient resource and capabilities as well as inefficient prioritisation, scheduling and oversight of projects. The risk could materialise both within the Group and our strategic partners. This could result in the benefits of change not being realised by the Group in the timeframe assumed in our business plans and may result in the Group being unable to deliver its strategic objectives.	The Group's Change Management Framework is being strengthened over 2021 with an enhanced change model, consistent with ensuring empowerment and accountability within Business Units to effectively deliver change. A revised prioritisation model will be implemented, with clearer alignment to the Group's Strategic Framework. Information setting out the levels of resource demand and supply, both a current and forecast view, will continue to be provided to accountable senior management so that informed decision-making can take place, with all risks to delivery appropriately identified, assessed, managed, monitored and reported.	2 3 4	No Change The Group is continuing to progress work to strengthen the Change Management Framework and enhance its prioritisation model. The benefits of this work are expected to emerge from the second half of 2021.

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
The Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks	The Group is exposed to market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition, there are long-term market, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). The Group is also exposed to the risk of failing to respond to wider Environmental, Social and Governance ('ESG') risks and delivering on our social purpose; for example, failing to meet our sustainability commitments. COVID-19 has amplified expectations for delivery of the Group's social purpose and sustainability vision. A failure to deliver could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness and reputational risks.	A Group-wide project is continuing to enhance our approach to managing the financial risks of climate change, including embedding climate risk considerations within the Group's RMF, which will meet the requirements of Supervisory Statement 3/19 (SS3/19). In March 2021, the Group made its first disclosures in line with the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations, including planned future priorities across each of the TCFD focus areas. Work is in progress to fully embed material climate-related risks into the Group risk policies. The Group also has a Board approved Sustainability Risk Appetite Statement. Our sustainability strategy has evolved to respond to the changing needs of our stakeholders and we have set targets to monitor progress towards our sustainability commitments. Further details on our sustainability strategy are available in our Sustainability Report. The Group continues to actively engage with regulators on progress with all climate change and sustainability-related deliverables.	1 2 3 4	No change In the first half of 2021 the Group has progressed with planning to deliver against the commitments communicated in the 2020 Annual Report and Accounts. These commitments included being net-zero carbon by 2025 across our operations, by 2050 across our investment portfolio and supporting the goals of the 1.5° Paris Agreement to limit global warming to 1.5°C above pre-industrial levels. The Group is participating in the 2021 Bank of England's Climate Biennial Exploratory Scenario exercise ('CBES'). The Group is on track to complete its TCFD activities, including compliance with SS3/19 required by the end of 2021. The Group recognises that there is a need to continue to evolve and enhance its climate risk management capabilities if it is to deliver against the Group's strategic objectives.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
CUSTOMER RISK				
The Group fails to deliver fair outcomes for its customers or fails to deliver propositions that continue to meet the evolving needs of customers	The Group is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and potential customer detriment. This could also lead to reputational damage for the Group and/or financial losses. In addition a failure to deliver propositions that meet the evolving needs of our customers may result in a failure to deliver our purpose of helping people secure a life of possibilities.	The Group's Conduct Risk Appetite sets the boundaries within which the Group expects customer outcomes to be managed. The Group Conduct Risk Framework, which overarches our Risk Universe and all risk policies, is designed to detect where our customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions. The Group has a suite of customer policies which set out key customer risks and minimum control standards in place to mitigate them. We maintain a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes. The Group's Proposition Development Process ensures consideration of customer needs and conduct risk when developing propositions.	2 3 4	No change Throughout the pandemic the Group has continued to provide ongoing support to customers, including those most vulnerable, both when paying out on their protection plans and when making decisions about their life savings during this period of uncertainty. In addition, one-off initiatives have been undertaken to support customers, with all changes being communicated clearly. In the first half of 2021, the Group continued to make significant investments in our propositions, including the launch of Investment Pathways. As noted in the 2020 Annual Report and Accounts, following the ReAssure Group plc acquisition, we have completed the Part VII transfer of business acquired from L&G and migrated customers to our in-house administration platform. Work is ongoing to ensure that customer service for the transferring customers meets our internal standards.
OPERATIONAL RISK				
The Group or its outsourcers are not sufficiently operationally resilient	The Group is exposed to the risk of causing intolerable levels of disruption to its customers and stakeholders if it cannot maintain the provisions of important business services when faced with a major operational disruption to core IT systems and operations. This could occur either within our own organisation or those of our primary and downstream outsourcers. The Group regularly conducts customer migrations as part of transition activities in delivering against the Group's strategic objectives. The fundamental risk faced when executing migrations is an interruption to the safe, stable and secure customer services delivered by the Group. Any service interruption may result in the Group failing to deliver expected customer outcomes. Regulatory requirements in respect of operational resilience were published in March 2021, together with a timetable to achieve full compliance. Failure to meet this timetable will expose the business to the potential for regulatory censure and reputational damage.	The Group has established business continuity management frameworks that are subject to an annual refresh and regular testing. The Group has combined the Operational Resilience Programmes for Phoenix and ReAssure to implement a single operational resilience framework that will operate across the Group and be applied to our outsourcers. This will enable regulatory compliance with the new guidelines. The Group continues to actively manage operational capacity and monitor service continuity required to deliver its strategy, including transition activities. Rigorous planning and stress testing is in place to identify and develop pre-emptive management strategies should services be impacted as a result of customer migrations. The Group's response to COVID-19 has contributed towards the mitigation of some aspects of this risk; the current working from home model significantly reduces the exposure to a number of physical risks which could cause disruption to our important business services.	1 2 3	No change This principal risk was rated as 'Risk Heightened' in the 2020 Annual Report and Accounts, there has been no change to this rating. There are two core drivers for this risk assessment: COVID-19 and strategic customer transformation. COVID-19 could still adversely impact the operational resilience of the Group and its operations both in the UK and globally, in regions where some our outsource partners have a presence. Whilst many potential exposures can be effectively mitigated, a large-scale loss of colleagues on a temporary or more permanent basis is more challenging to resolve in the short-term. The Group continue to track the COVID-19 situation in India and its potential impact on outsourcers; to date, impacts have been managed effectively by outsourcers in India; however, the risk remains. The scale of strategic customer transformation activity across the Group increases the potential for operational disruption. The Group is continuing to progress work to strengthen the Change Management and Resilience Frameworks to mitigate this risk.

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
The Group is impacted by significant changes in the regulatory, legislative or political environment	Changes in regulation could lead to non-compliance with new requirements that could impact the Group's fair treatment of its customers. These could require changes to working practices and have an adverse impact on resources and the balance sheet. Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.	The Group undertakes proactive horizon scanning to understand potential changes to the regulatory and legislative landscape. This allows the Group to understand the potential impact of these changes to amend working practices to meet the new requirements by the deadline.	1 2 3	No change There remains some uncertainty as to whether the UK government will change the current regulatory and legislative requirements in a post-Brexit environment. Recent consultations, such as the FCA Consumer Duty Consultation Paper, suggest that we may expect more regulation than in the recent past. This would likely lead to a growing demand on time and resources from the business but any such change will include a sufficiently long lead in time to allow the Group to react appropriately.
The Group or its supply chain are not sufficiently Cyber resilient	As the Group continues to grow in size and profile this could lead to increased interest from cyber criminals and a greater risk of cyber-attack, sustained IT Service disruption or data breach which could have significant impact on customer outcomes, strategic objectives, regulatory obligations and the Group's reputation/brand. Based on external events and trends, the threat posed by a cyber security breach remains high and the complexity of the Group's increasingly interconnected digital ecosystem including multiple IT networks and numerous OSPs and 3rd Parties exposes the Group to multiple attack vectors. These include phishing and business email compromise, hacking, data breach and supply chain compromise. Increased use of online functionality to meet customer preferences and future ways of working including remote access to business systems adds additional challenges to cyber resilience and could impact service provision and Customer security. Failure to continue to maintain and continually improve security controls could lead to a cyber-attack with significant impact.	To mitigate this risk, the Phoenix Group is continually strengthening its cyber security controls and attack detection and response processes, identifying weaknesses through ongoing assessment and review. The Information/Cyber Security Strategy includes a continuous Information Security and Cyber Improvement Programme, which is driven by input from the Annual Cyber Risk Assessments. The Group Information Security Policy mandates zero or very low risk appetites in relation to failing to maintain Minimum Control Standards. The Group continues to utilise cyber security tools and capabilities in order to mitigate information security and cyber risk. The specialist Line 2 Information Security & Cyber Risk team provides independent oversight and challenge of information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions. Comprehensive OSP and 3rd Party oversight and assurance processes are in place. Regular Board, Executive, Risk and Audit Committee engagement occurs within the Group.	1 2 3	New Principal Risk Cyber risk was previously a component considered under the 'operational resilience' principal risk.

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
The Group fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy	Delivery of the Group's strategy is dependent on a talented, diverse and engaged workforce. Periods of prolonged uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract individuals with the appropriate skills to help deliver our strategy. This risk is inherent in our business model given the nature of our acquisition activity and specialist risk management skillsets. Potential areas of uncertainty include the transition of the Standard Life Assurance and ReAssure businesses into the Group and the expanded strategic partnership with TCS. Prolonged home working, caring and childcare lockdown implications and extended distancing due to COVID-19 can affect colleague engagement, wellbeing and productivity.	Timely communications to our colleagues aim to provide clarity around corporate activities. Communications include details of key milestones to deliver against our plans. We regularly benchmark terms and conditions against the market. We maintain and review succession plans for key individuals, ensuring successors bring appropriate diversity of thought, backgrounds and experiences. Following the transition to working from home due to COVID-19, the Group has conducted regular Colleague Snapshot Surveys to monitor colleague engagement levels and identify any concerns; appropriate actions are taken following analysis of the results. The Group continues to actively manage operational capacity required to deliver our strategy. This is particularly pertinent given the increasing demands on our workforce at this time.	1 2 3 4 5	No change Engagement scores across the Group remain generally strong with small incremental improvements in scores since the first quarter. The Group has initiated its phased return to the office plan whilst continuing to follow government guidelines and take measures to ensure the continued safety of our colleagues. There remains a risk that should the government reintroduce COVID-19 restrictions that the Group could see a downturn in engagement. The Group's attrition rates remain below target and even with the job markets opening back up they remain below those reported before the pandemic. The Group continues to manage this carefully through cross-organisational collaboration, health and wellbeing support and regular communications to staff. In the future the Group expect the vast majority of colleagues to have a blended home/ office working model. The approach is focused on empowerment by enabling leaders and colleagues to agree together the right working arrangements which meet individual, team and business needs. The increased scale and presence of the Group, and our success in multi-site and remote working, gives us greater access to a larger talent pool to attract in the future.

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
MARKET RISK				
Adverse market movements can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment	The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers. There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector specific sentiment, global pandemics and financial risks of climate change, including risks from the transition to a low carbon economy.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. The Group continues to implement de-risking strategies to mitigate against unwanted customer and shareholder outcomes from certain market movements such as equities, interest rates and foreign currencies. The Group maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows. The Group's excess capital position continues to be closely monitored and managed. The Group regularly discusses market outlook with our asset managers.	1 2 3	No change This principal risk was rated as 'Risk Heightened' in the 2020 Annual Report and Accounts, there has been no change to this rating. Markets reacted favourably to the successful rollout of the COVID-19 vaccination programme and remained resilient to the delay in removing final lockdown restrictions as reported infections increased throughout the UK. The risk remains that restrictions are re-imposed over the second half of 2021 due to factors such as poor vaccine rate take up in younger age groups or new vaccine resistant variants arising. An increase in inflation over the short to medium term is considered a risk, with reported inflation increasing as pent up demand hits markets. A future potential driver of inflation risk is that the unequal global vaccination roll out results in supply shortages in goods from emerging market economies. There are contingency actions available to the Group to manage the capital and liquidity position against unanticipated market movements. The Group's Stress and Scenario Testing Programme, a key component of the RMF and Own Risk and Solvency Assessment ('ORSA'), has demonstrated the resilience of the Group's balance sheet to a wide range of market stresses. The Group's exposure to residential property continues to increase as a result of our Bulk Purchase Annuity (BPA) investment strategy; however, exposures are currently relatively small in the context of the Group's AUM and remain within our risk appetite.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
INSURANCE RISK				
The Group may be exposed to adverse demographic experience which is out of line with expectations	The Group has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if our annuity policyholders live for longer than expected, then the Group will need to pay their benefits for longer. The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements. The Group continues to manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite. The Group actively monitors persistency risk metrics and exposures against appetite across the Open and Heritage businesses. Where required the Group continues to take capital management actions to mitigate against adverse demographic experience.	1 2	No change This principal risk was rated as 'Risk Heightened' in the 2020 Annual Report and Accounts, there has been no change to this rating. There remains uncertainty around future demographic experience as a result of COVID-19 impacts. Whilst updated experience during the pandemic is taken into account in scheduled assumption reviews the long-term impact of COVID-19 on longevity, mortality and persistency experience still remains unclear. The Group completed external bulk annuity transactions in the first half of 2021 with a combined premium of £431 million. Consistent with previous transactions, we continue to reinsure the vast majority of the longevity risk with existing arrangements that are reviewed regularly.
CREDIT RISK				
The Group is exposed to the risk of downgrade or failure of a significant counterparty	The Group is exposed to the risk of downgrades and deterioration in the creditworthiness or default of investment, reinsurance or banking counterparties. This could cause immediate financial loss or a reduction in future profits. The Group is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations.	The Group regularly monitors its counterparty exposures and has specific limits relating to individual exposures, counterparty credit rating, sector and geography. The Group undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. The Group regularly discusses market outlook with our asset managers. For mitigation of risks associated with stock-lending, additional protection is provided through indemnity insurance.	1 2	No change This principal risk was rated as 'Risk Heightened' in the 2020 Annual Report and Accounts, there has been no change to this rating. The risk of unexpected downgrades and defaults within the Group's credit risk portfolio remains heightened due to wider economic and social impacts arising from COVID-19. Over the last 12 months the Group has taken de-risking action to increase the overall credit quality of the portfolio and mitigate the impact of future downgrades on risk capital. Furthermore, the Group has enhanced its counterparty concentration limits framework to better manage counterparty failure risk. Looking forward, the credit market outlook is expected to improve should the successful vaccine rollout and easing of restrictions continue releasing pent-up consumer demand. The Group continues to increase investment in illiquid credit assets as a result of BPA transactions. This is in line with our strategic asset allocation plan and within risk appetite.

EMERGING RISKS AND OPPORTUNITIES

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

Examples of some emerging risks and opportunities the Group currently considers are listed in the table below.

Risk title	Description	Risk Universe Category
Market disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic
Pensions dashboard	An industry-wide dashboard giving customers a single view of their defined benefit, defined contribution and State pensions. There is an opportunity to play a leading role in the development of the dashboard and to attract pension pot consolidation and deliver good customer outcomes.	Customer
Addressing the UK savings gap	Generations of UK savers face projected funding shortfalls in retirement. The Group is seeking to address this gap through investment and growth in the Open business.	Customer
COVID-19 aftershocks	Long-term political, economic, social, technological and global impacts are emerging as some countries ease restrictions, while others increase them.	All categories

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- the condensed consolidated interim financial statements for the half year ended 30 June 2021, which have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UK, give a fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings plc and its consolidated subsidiaries taken as whole;

- the Interim Report includes a fair view of the state of affairs of Phoenix Group Holdings plc and its consolidated subsidiaries as at 30 June 2021 and for the financial half year to which the Interim Report relates as required by DTR 4.2.7 of the Disclosure Guidance and Transparency Rules. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings plc and its consolidated subsidiaries for the remaining six months of the year; and

- the Interim Report includes, as required by DTR 4.2.8, a fair view of the information required on material transactions with related parties and any material changes in related party transactions described in the last Annual Report.

By order of the Board

Andy Briggs
Group Chief Executive Officer
10 August 2021

Rakesh Thakrar
Group Chief Financial Officer

Phoenix Group Holdings plc Board of Directors

Chairman
Nicholas Lyons

Executive Directors
Andy Briggs
Rakesh Thakrar

Non-Executive Directors
Alastair Barbour
Karen Green
Hiroyuki Iioka
Wendy Mayall
John Pollock
Belinda Richards
Nicholas Shott
Kory Sorenson
Mike Tumilty

AUDITOR'S REVIEW REPORT

To: Phoenix Group Holdings plc

CONCLUSION

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the condensed consolidated income statement, condensed statement of consolidated comprehensive income, condensed statement of consolidated financial position, condensed statement of consolidated changes in equity, condensed statement of consolidated cash flows and the notes to the condensed consolidated interim financial statements. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 "Interim Financial Reporting" and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BASIS FOR CONCLUSION

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

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

RESPONSIBILITIES OF THE DIRECTORS

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

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE FINANCIAL INFORMATION

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

USE OF OUR REPORT

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

Ernst & Young LLP
London
10 August 2021

CONDENSED CONSOLIDATED INCOME STATEMENT

For the half year ended 30 June 2021

	Notes	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 restated[1] £m	Year ended 31 December 2020 £m
Gross premiums written		**2,139**	2,456	4,706
Less: premiums ceded to reinsurers		**(526)**	(291)	(796)
Net premiums written		**1,613**	2,165	3,910
Fees and commissions		**490**	314	794
Total revenue, net of reinsurance payable		**2,103**	2,479	4,704
Net investment income		**8,105**	534	16,935
Other operating income		**38**	54	121
Gain on completion of Abrdn plc transaction	2.1	**110**	–	–
Gain on acquisition		**–**	–	372
Gain on Part VII portfolio transfer		**–**	–	85
Total income		**10,356**	3,067	22,217
Policyholder claims		**(4,758)**	(3,452)	(7,808)
Less: reinsurance recoveries		**833**	587	1,613
Change in insurance contract liabilities		**5,017**	(2,020)	(3,249)
Change in reinsurers' share of insurance contract liabilities		**(856)**	28	(568)
Transfer from/(to) unallocated surplus		**79**	(69)	(113)
Net policyholder claims and benefits incurred		**315**	(4,926)	(10,125)
Change in investment contract liabilities		**(9,654)**	3,507	(7,991)
Amortisation and impairment of acquired in-force business		**(292)**	(177)	(469)
Amortisation of other intangibles		**(11)**	(10)	(18)
Administrative expenses		**(963)**	(697)	(1,674)
Net income/(expense) under arrangements with reinsurers		**48**	(93)	(219)
Net (income)/expense attributable to unitholders		**(130)**	46	(217)
Total operating expenses		**(10,687)**	(2,350)	(20,713)
(Loss)/profit before finance costs and tax		**(331)**	717	1,504
Finance costs		**(123)**	(106)	(234)
(Loss)/profit for the period before tax		**(454)**	611	1,270
Tax (charge)/credit attributable to policyholders' returns	5	**(174)**	32	(326)
(Loss)/profit before the tax attributable to owners		**(628)**	643	944
Tax charge	5	**(213)**	(125)	(436)
Add: tax attributable to policyholders' returns	5	**174**	(32)	326
Tax charge attributable to owners	5	**(39)**	(157)	(110)
(Loss)/profit for the period attributable to owners		**(667)**	486	834
Attributable to:				
Owners of the parent		**(718)**	506	798
Non-controlling interests	10	**51**	(20)	36
		(667)	486	834
Earnings per ordinary share				
Basic (pence per share)	6	**(73.3)p**	68.7p	91.8p
Diluted (pence per share)	6	**(73.3)p**	68.5p	91.5p

[1] See note 1.1 for details of the restatement.

CONDENSED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

For the half year ended 30 June 2021

	Notes	**Half year ended 30 June 2021 £m**	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
(Loss)/profit for the period		**(667)**	486	834
Other comprehensive income:				
Items that are or may be reclassified to profit or loss:				
Cash flow hedges:				
Fair value gains arising during the period		**5**	129	129
Reclassification adjustments for amounts recognised in profit or loss		**(11)**	(74)	(79)
Exchange differences on translating foreign operations		**(30)**	44	33
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit asset/liability		**90**	(78)	(21)
Tax charge relating to other comprehensive income items	5	**(18)**	(6)	(37)
Total other comprehensive income for the period		**36**	15	25
Total comprehensive (expense)/income for the period		**(631)**	501	859
Attributable to:				
Owners of the parent		**(682)**	521	823
Non-controlling interests	10	**51**	(20)	36
		(631)	501	859

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at 30 June 2021

	Notes	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 £m
ASSETS				
Pension scheme asset	12	**21**	377	11
Intangible assets				
Goodwill		**57**	57	57
Acquired in-force business		**4,602**	3,473	5,013
Other intangibles		**241**	180	171
	11	**4,900**	3,710	5,241
Property, plant and equipment		**131**	103	119
Investment property		**4,291**	5,781	7,128
Financial assets				
Loans and deposits		**649**	974	647
Derivatives		**4,704**	6,836	6,880
Equities		**85,189**	54,187	82,634
Investment in associate		**444**	347	400
Debt securities		**102,283**	78,599	109,455
Collective investment schemes		**85,442**	69,185	89,248
Reinsurers' share of investment contract liabilities		**9,667**	8,523	9,559
	15	**288,378**	218,651	298,823
Insurance assets				
Reinsurers' share of insurance contract liabilities		**8,002**	7,360	9,542
Reinsurance receivables		**73**	46	141
Insurance contract receivables		**309**	54	94
		8,384	7,460	9,777
Current tax		**451**	103	263
Prepayments and accrued income		**375**	241	343
Other receivables		**3,361**	1,561	1,622
Cash and cash equivalents		**9,112**	6,505	10,998
Assets classified as held for sale	2	**12,719**	–	–
Total assets		**332,123**	244,492	334,325

	Notes	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	8	**100**	72	100
Share premium		**5**	3	4
Shares held by employee benefit trust		**(9)**	(11)	(6)
Foreign currency translation reserve		**72**	113	102
Merger relief reserve	8	**1,819**	–	1,819
Other reserves	9	**42**	53	48
Retained earnings		**4,069**	4,897	4,970
Total equity attributable to owners of the parent		**6,098**	5,127	7,037
Tier 1 Notes		**494**	494	494
Non-controlling interests	10	**387**	289	341
Total equity		**6,979**	5,910	7,872
Liabilities				
Pension scheme liability	12	**1,922**	1,818	2,036
Insurance contract liabilities				
Liabilities under insurance contracts	13	**127,433**	98,778	133,907
Unallocated surplus		**1,781**	1,280	1,768
		129,214	100,058	135,675
Financial liabilities				
Investment contracts		**156,607**	115,660	165,106
Borrowings	14	**4,318**	3,649	4,567
Deposits received from reinsurers		**3,770**	4,092	4,080
Derivatives		**1,101**	1,041	1,001
Net asset value attributable to unitholders		**3,666**	2,742	3,791
Obligations for repayment of collateral received		**3,482**	5,590	5,205
	15	**172,944**	132,774	183,750
Provisions		**243**	294	282
Deferred tax		**1,319**	782	1,036
Reinsurance payables		**130**	111	134
Payables related to direct insurance contracts		**1,858**	1,012	1,669
Current tax		**–**	1	–
Lease liabilities		**98**	77	84
Accruals and deferred income		**507**	362	521
Other payables		**2,543**	1,293	1,266
Liabilities classified as held for sale	2	**14,366**	–	–
Total liabilities		**325,144**	238,582	326,453
Total equity and liabilities		**332,123**	**244,492**	**334,325**

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the half year ended 30 June 2021

	Share capital (note 8) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Merger relief reserve (note 8) £m	Other reserves (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non-controlling interests (note 10) £m	Total equity £m
At 1 January 2021	**100**	**4**	**(6)**	**102**	**1,819**	**48**	**4,970**	**7,037**	**494**	**341**	**7,872**
(Loss)/profit for the period	–	–	–	–	–	–	(718)	(718)	–	51	(667)
Other comprehensive (expense)/income for the period	–	–	–	(30)	–	(6)	72	36	–	–	36
Total comprehensive (expense)/income for the period	–	–	–	(30)	–	(6)	(646)	(682)	–	51	(631)
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	–	1	–	–	1
Dividends paid on ordinary shares	–	–	–	–	–	–	(241)	(241)	–	–	(241)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(5)	(5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	6	6	–	–	6
Shares distributed by the employee benefit trust	–	–	8	–	–	–	(8)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(11)	–	–	–	–	(11)	–	–	(11)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 30 June 2021	**100**	**5**	**(9)**	**72**	**1,819**	**42**	**4,069**	**6,098**	**494**	**387**	**6,979**

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the half year ended 30 June 2020

	Share capital (note 8) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Other reserves (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non-controlling interests (note 10) £m	Total equity £m
At 1 January 2020	72	2	(7)	69	(2)	4,651	4,785	494	314	5,593
Profit for the period	–	–	–	–	–	506	506	–	(20)	486
Other comprehensive income/(expense) for the period	–	–	–	44	55	(84)	15	–	–	15
Total comprehensive income for the period	–	–	–	44	55	422	521	–	(20)	501
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	1	–	–	1
Dividends paid on ordinary shares	–	–	–	–	–	(169)	(169)	–	–	(169)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(5)	(5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	8	8	–	–	8
Shares distributed by the employee benefit trust	–	–	3	–	–	(3)	–	–	–	–
Shares acquired by employee benefit trust	–	–	(7)	–	–	–	(7)	–	–	(7)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	(12)	(12)	–	–	(12)
At 30 June 2020	72	3	(11)	113	53	4,897	5,127	494	289	5,910

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital (note 8) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Merger relief reserve (note 8) £m	Other reserves (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non-controlling interests (note 10) £m	Total equity £m
At 1 January 2020	72	2	(7)	69	–	(2)	4,651	4,785	494	314	5,593
Profit for the year	–	–	–	–	–	–	798	798	–	36	834
Other comprehensive income/(expense) for the year	–	–	–	33	–	50	(58)	25	–	–	25
Total comprehensive income for the year	–	–	–	33	–	50	740	823	–	36	859
Issue of ordinary share capital, net of associated commissions and expenses	28	2	–	–	1,819	–	–	1,849	–	–	1,849
Dividends paid on ordinary shares	–	–	–	–	–	–	(403)	(403)	–	–	(403)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(9)	(9)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	13	13	–	–	13
Shares distributed by the employee benefit trust	–	–	8	–	–	–	(8)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(7)	–	–	–	–	(7)	–	–	(7)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(23)	(23)	–	–	(23)
At 31 December 2020	100	4	(6)	102	1,819	48	4,970	7,037	494	341	7,872

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS

For the half year ended 30 June 2021

	Notes	**Half year ended 30 June 2021 £m**	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Cash flows from operating activities				
Cash (utilised)/generated by operations	16	**(1,252)**	1,093	7,316
Taxation paid		**(104)**	(234)	(562)
Net cash flows from operating activities		**(1,356)**	859	6,754
Cash flows from investing activities				
Proceeds from completion of Abrdn transaction	2.1	**115**	–	–
Acquisition of ReAssure businesses, net of cash acquired		**–**	–	(979)
Net cash flows from investing activities		**115**	–	(979)
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**1**	1	2
Ordinary share dividends paid	7	**(241)**	(169)	(403)
Dividends paid to non-controlling interests	10	**(5)**	(5)	(9)
Repayment of policyholder borrowings		**(9)**	(14)	(55)
Repayment of shareholder borrowings		**(200)**	–	–
Repayment of lease liabilities		**(6)**	(6)	(18)
Proceeds from new shareholder borrowings, net of associated expenses		**–**	1,445	1,445
Coupon paid on Tier 1 Notes		**(14)**	(14)	(29)
Interest paid on policyholder borrowings		**–**	–	(5)
Interest paid on shareholder borrowings		**(124)**	(58)	(171)
Net cash flows from financing activities		**(598)**	1,180	757
Net (decrease)/increase in cash and cash equivalents		**(1,839)**	2,039	6,532
Cash and cash equivalents at the beginning of the period		**10,998**	4,466	4,466
Less: cash and cash equivalents of operations classified as held for sale		**(47)**	–	–
Cash and cash equivalents at the end of the period		**9,112**	6,505	10,998

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements ('the interim financial statements') for the half year ended 30 June 2021 comprise the interim financial statements of Phoenix Group Holdings plc ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 27 to 61 and were authorised by the Board of Directors for issue on 10 August 2021. The interim financial statements are unaudited but have been reviewed by our auditors, Ernst & Young LLP and their review report appears on page 26.

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

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

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

The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UK. The accounting policies applied in the interim financial statements are consistent with those set out in the 2020 consolidated financial statements.

The interim financial statements do not include all the information and disclosures required in the 2020 consolidated financial statements, and should be read in conjunction with the Group's 2020 Annual Report and Accounts, which have been prepared in conformity with the requirements of the Companies Act 2006 and also in accordance with International Financial Reporting Standards ('IFRSs') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2021:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- COVID-19 Rent Related Concessions (Amendments to IFRS 16); and
- Insurance contracts – Deferral of IFRS 9 (Amendments to IFRS 4).

None of the above interpretations and amendments to standards are considered to have a material effect on these interim financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2020 were delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Going concern

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

The Board, in reaching its decision to pay the 2020 final dividend, considered financial projections which demonstrated the ability of the Group to withstand market shocks in a range of scenarios, including very severe ones.

In assessing the appropriateness of the going concern basis, the Board considered base case liquidity and solvency projections that incorporated an estimated view of the potential economic downturn that is anticipated to be experienced due to the impacts of COVID-19. In addition, a more onerous economic downturn was also modelled as there continues to be a high degree of uncertainty around the economic outlook. These scenarios have been validated against latest available external benchmarks, including International Monetary Fund and Bank of England forecasts. The projections demonstrated that excess capital would remain in the Life Companies under both scenarios, supporting cash generation in the going concern period, and noted the Group's access to additional funding through its undrawn £1.25 billion Revolving Credit Facility.

As a result of the above assessment, these interim financial statements have been prepared on the basis that the Group will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 September 2022.

1.1 Restatement of prior period information

Segmental analysis

During 2020, the Group reassessed its operating segments as a result of strategic developments. Specifically, the categorisation of the provision of annuities to existing policyholders with vesting products and from Bulk Purchase Annuity contracts has been revised such that this business is now included within the UK Open segment instead of within the UK Heritage segment.

Comparative segmental performance information for the half year ended 30 June 2020 has been restated to reflect this new presentation. UK Heritage operating profit has been reduced by £163 million to £118 million and the UK Open operating profit has been increased by the same amount to £221 million. UK Heritage segmental revenue has been reduced by £1,268 million to £349 million and the UK Open segmental revenue has been increased by the same amount to £1,525 million.

As at the 31 December 2020, following the acquisition of the ReAssure businesses, a separate operating segment was reported which included all the ReAssure business. During the half year ended 30 June 2021, the Group has again reassessed its operating segments to reflect the way the Group is now being managed. Consequently, the results previously reported within the ReAssure segment are all now reported within the UK Heritage and UK Open segments and within Unallocated Group. UK Heritage and UK Open operating profit for the year ended 30 December 2020 has been increased by £153 million to £431 million and £301 million to £773 million respectively and Unallocated Group has decreased by £10 million to an operating loss of £55 million. UK Heritage segmental revenue has been increased by £251 million to £939 million and UK Open segmental revenue has been decreased by £69 million to £2,529 million.

Present value of future profits ('PVFP')

During the half year ending 30 June 2020, the PVFP intangible was reclassified from other intangibles to investment contract liabilities and the movement of £82 million in the period was reported as a 'change in present value of future profits' in the condensed consolidated income statement. The PVFP intangibles represented future profits on specific blocks of business in the NPL with-profit fund that were partly attributable to the holders of the limited recourse bonds. As the value of future profits was not attributable solely to policyholders the PVFP was therefore presented as a separate intangible asset. During the half year ended 30 June 2020, Phoenix Life Assurance Limited repaid its internal loans in respect of the limited recourse bonds and consequently at 30 June 2020 the value of the future profits were attributable solely to policyholders and therefore the PVFP balance was reclassified to investment contract liabilities at this date. The condensed consolidated income statement for the half year ended 30 June 2020 has been restated to reflect the reclassification of the movement in the PVFP as a 'change in investment contract liabilities'.

The reclassifications noted above are also reflected in note 3 segmental analysis, note 16 cash flows from operating activities and the condensed consolidated income statement.

2. SIGNIFICANT TRANSACTIONS DURING THE PERIOD

2.1 New Agreement with Abrdn plc ('Abrdn') (formerly Standard Life Aberdeen plc)

On 23 February 2021, the Group entered into a new agreement with Abrdn to simplify the arrangements of their Strategic Partnership, enabling the Group to control its own distribution, marketing and brands, and focusing the Strategic Partnership on using Abrdn's asset management services in support of Phoenix's growth strategy.

Under the terms of the transaction, the Group will sell its UK investment and platform-related products, comprising Wrap Self Invested Personal Pension ('Wrap SIPP'), Onshore Bond and UK Trustee Investment Plan ('TIP') to Abrdn and effective from 1 January 2021, has transferred the economic benefit of this business to Abrdn. The Group also acquired ownership of the Standard Life brand and as part of this acquisition, the relevant marketing, distribution and data team members transferred to the Group. As a consequence, the Client Service and Proposition Agreement ('CSPA'), entered into between the two groups following the acquisition of the Standard Life businesses in 2018, has been significantly amended prior to being dissolved. In addition, Phoenix and Abrdn resolved all legacy issues in relation to the CSPA and Transitional Service Agreement ('TSA') entered into at the time of the acquisition of the Standard Life businesses.

The Group received cash consideration for the overall transaction of £115 million, £62 million of which has been deferred as detailed below. On completion of the agreement the Group recognised a net gain on the transaction of £89 million which has been recognised in the condensed consolidated income statement as follows:

	30 June 2021 £m
Sale of Wrap SIPP, Onshore and TIP business	**(51)**
Transfer of marketing services and termination of CSPA[1]	**14**
Value attributed to acquisition of the brand (note 11)	**111**
Resolution of legacy issues and project costs	**36**
Gain on completion of Abrdn transaction	**110**
Attributable tax charge	**(21)**
	89

1 Includes the financial impact of the impairment of the full value of the CSPA related intangible asset. Further details are included in note 11.

The sale of the Wrap SIPP, Onshore Bond and TIP business currently within Standard Life Assurance Limited, will be effected through a Part VII transfer targeted for completion in late 2022. The economic risk and rewards for this business will transfer to Abrdn effective from 1 January 2021 via a profit transfer arrangement. The consideration received in respect of this business of £62 million has been deferred until completion of the Part VII and the payments to Abrdn in respect of the profit transfer arrangement are being offset against the deferred consideration balance.

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

	30 June 2021 £m
Acquired in-force business (note 11)	**60**
Investment property	**3,537**
Financial assets	**6,565**
Deferred tax assets	**12**
Cash and cash equivalents	**38**
Assets classified as held for sale	**10,212**
Assets in consolidated funds[1]	**1,798**
Total assets of the disposal group	**12,010**
Investment contract liabilities	**(11,934)**
Other financial liabilities	**(3)**
Provisions	**(2)**
Deferred tax liabilities	**(11)**
Accruals and deferred income	**(60)**
Liabilities classified as held for sale	**(12,010)**

1 Included in assets of the disposal group are assets in consolidated funds, which are held to back investment contract liabilities of the Wrap SIPP, Onshore bond and TIP business and are disclosed within financial assets in the condensed statement of consolidated financial position. The Group controls these funds at 30 June 2021 and therefore consolidates 100% of the assets with any non-controlling interest recognised as net asset value attributable to unitholders.

2.2 Disposal of Ark Life Assurance Company DAC ('Ark Life')

During the period the Group Board approved the process to dispose of Ark Life and a potential acquirer had been identified. On 13 July 2021, the Group announced that it had entered into an agreement to sell Ark Life and the sale is expected to be completed by early 2022. As a result, Ark Life has been classified as a disposal group held for sale as at 30 June 2021 and presented separately in the condensed statement of consolidated financial position.

The expected proceeds of disposal of €230 million (£197 million) are not expected to exceed the carrying value of the related net assets and accordingly the disposal group has been measured at fair value less costs to sell. An impairment loss of £18 million has been recognised upon classification of the business as held for sale in respect of the AVIF. The major classes of assets and liabilities classified as held for sale are as follows:

	30 June 2021 £m
Financial assets	**1,825**
Reinsurers' share of insurance contract liabilities	**658**
Other receivables	**15**
Cash and cash equivalents	**9**
Assets classified as held for sale	**2,507**
Assets in consolidated funds[1]	**46**
Total assets of the disposal group	**2,553**
Insurance contract liabilities	**(728)**
Investment contract liabilities	**(1,590)**
Deferred tax liabilities	**(3)**
Other liabilities	**(35)**
Liabilities classified as held for sale	**(2,356)**

1 Included in assets of the disposal group are assets in consolidated funds, which are held to back investment and insurance contract liabilities of Ark Life and are disclosed within financial assets in the condensed statement of consolidated financial position. The Group controls these funds at 30 June 2021 and therefore consolidates 100% of the assets with any non-controlling interest recognised as net asset value attributable to unitholders.

3. SEGMENTAL ANALYSIS

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

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

During the period, the Group reassessed its operating segments to reflect the way the Group is now being managed. The results of the ReAssure segment have been incorporated into the UK Heritage and UK Open segments and certain costs have been included within Unallocated Group. As at 30 June 2021, the Group now has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services. The comparative information has been restated to reflect the changes to the reporting segments and further details of these restatements are included in note 1.1.

For management purposes, the Group is organised into business units based on their products and services. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. No such aggregation has been required in the current year.

The UK Heritage segment contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies.

The UK Open segment includes new and in-force life insurance and investment policies in respect of products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and Self-Invested Personal Pensions ('SIPPs') distributed through the Group's Strategic Partnership with Abrdn, products sold under the SunLife brand, and annuities, including Bulk Purchase Annuity contracts.

The Europe segment includes business written in Ireland and Germany. This includes products that are actively being marketed to new policyholders, and legacy in-force products that are no longer being sold to new customers.

The Management Services segment comprises income from the life and holding companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs.

Unallocated Group includes consolidation adjustments and Group financing (including finance costs) which are managed on a Group basis and are not allocated to individual operating segments.

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

Segmental measure of performance: Operating profit

The Group uses a non-GAAP measure of performance, being operating profit, to evaluate segmental performance. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movement in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer-term asset allocation backing the business).

The determination of operating profit is as described in note B1 of the Group's 2020 consolidated financial statements.

3.1 Segmental result

Half year ended 30 June 2021

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 restated[1] £m	Year ended 31 December 2020 restated[1] £m
Operating profit			
UK Heritage	**375**	118	431
UK Open	**148**	221	773
Europe	**30**	20	44
Management Services	**2**	19	6
Unallocated Group	**(28)**	(17)	(55)
Total segmental operating profit	**527**	361	1,199
Investment return variances and economic assumption changes on long-term business	**(807)**	600	(47)
Variance on owners' funds	**(17)**	27	148
Amortisation and impairment of acquired in-force business	**(288)**	(174)	(464)
Amortisation of other intangibles	**(11)**	(10)	(18)
Other non-operating items	**28**	(65)	281
Finance costs attributable to owners	**(111)**	(76)	(191)
(Loss)/profit before the tax attributable to owners of the parent	**(679)**	663	908
Profit/(loss) before tax attributable to non-controlling interests	**51**	(20)	36
(Loss)/profit before the tax attributable to owners	**(628)**	643	944

1 See note 1.1 for details of the restatement.

Other non-operating items in respect of the half year ended 30 June 2021 include:

- a net £110 million gain arising on the transaction with Abrdn plc, which included the sale of the Group's UK investment and platform related products and the acquisition by the Group of the Standard Life brand (see note 2.1 for further details);
- £35 million related to the increase in provision for costs associated with the delivery of the Group Target Operating Model for IT and Operations;
- £14 million of costs associated with the ongoing ReAssure integration programme;
- costs of £9 million associated with the ongoing integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019;
- £27 million of other corporate project costs; and
- net other one-off items totalling an income of £3 million.

Other non-operating items in respect of the half year ended 30 June 2020 include:

- £48 million related to the provision for costs associated with the delivery of the Group Target Operating Model for IT and Operations;
- £7 million of costs associated with the acquisition of ReAssure Group plc;
- £4 million of other corporate project costs; and
- net other one-off items totalling a cost of £6 million.

Other non-operating items in respect of the year ended 31 December 2020 include:

- a gain on acquisition of £372 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of ReAssure Group plc (see note H2.1 of the Group's 2020 consolidated financial statements for further details);
- a gain of £85 million arising on completion of the Part VII transfer of the mature savings liabilities and associated assets from the L&G Group (see note H2.2 of the Group's 2020 consolidated financial statements for further details);
- a net £43 million of additional costs associated with the delivery of the Group Target Operating Model for IT and Operations, comprising a £74 million increase in expenses recognised within liabilities under insurance contracts and partly offset by a £31 million release within the Transition and Transformation restructuring provision;
- costs of £37 million associated with the acquisition of ReAssure Group plc, and £19 million incurred under the subsequent integration programme;
- costs of £20 million associated with the on-going integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019, incurred since the Group's acquisition of ReAssure Group plc in July 2020;
- costs of £16 million associated with the transfer and integration of the L&G mature savings business;
- £34 million of other corporate project costs; and
- net other one-off items totalling a cost of £7 million.

Further details of the investment return variances and economic assumption changes on long-term business, and the variance on owners' funds are included in note 4.

3.2 Segmental revenue

Half year ended 30 June 2021	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	485	928	726	–	–	2,139
Less: premiums ceded to reinsurers	(163)	(351)	(12)	–	–	(526)
Net premiums written	322	577	714	–	–	1,613
Fees and commissions	318	146	26	–	–	490
Income from other segments	–	–	–	404	(404)	–
Total segmental revenue	640	723	740	404	(404)	2,103

Of the revenue from external customers presented in the table above for the half year ended 30 June 2021, £1,685 million is attributable to customers in the United Kingdom ('UK') and £418 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) as at 30 June 2021 of £4,281 million located in the UK and £439 million located in the rest of the world.

Half year ended 30 June 2020 restated[1]	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	309	1,549	598	–	–	2,456
Less: premiums ceded to reinsurers	(104)	(171)	(16)	–	–	(291)
Net premiums written	205	1,378	582	–	–	2,165
Fees and commissions	144	147	23	–	–	314
Income from other segments	–	–	–	367	(367)	–
Total segmental revenue	349	1,525	605	367	(367)	2,479

1 See note 1.1 for details of the restatement.

Of the revenue from external customers presented in the table above for the half year ended 30 June 2020, £2,066 million is attributable to customers in the UK and £413 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) as at 30 June 2020 of £5,693 million located in the UK and £428 million located in the rest of the world.

Year ended 31 December 2020 restated[1]	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	765	2,726	1,215	–	–	4,706
Less: premiums ceded to reinsurers	(267)	(500)	(29)	–	–	(796)
Net premiums written	498	2,226	1,186	–	–	3,910
Fees and commissions	441	303	50	–	–	794
Income from other segments	–	–	–	737	(737)	–
Total segmental revenue	939	2,529	1,236	737	(737)	4,704

1 See note 1.1 for details of the restatement.

Of the revenue from external customers presented in the table above for the year ended 31 December 2020, £3,818 million is attributable to customers in the UK and £886 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group had total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) as at 31 December 2020 of £7,042 million located in the UK and £433 million located in the rest of the world.

4. INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES

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

4.1 Calculation of the long-term investment return

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

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15-year duration plus 10bps at the start of the period. A risk premium of 349bps is added to the risk-free yield for equities (30 June 2020 and 31 December 2020: 349bps), 249bps for properties (30 June 2020 and 31 December 2020: 249bps), 55bps for corporate bonds (30 June 2020 and 31 December 2020: 55bps) and 15bps for gilts (30 June 2020 and 31 December 2020: 15bps). The reduction in the risk-free rate reflected the lower expected return for these assets at the beginning of the period due to the lower fixed interest yields experienced in 2020.

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

	Half year ended 30 June 2021 %	Half year ended 30 June 2020 %	Year ended 31 December 2020 %
Equities	4.1	4.7	4.7
Properties	3.1	3.7	3.7
Gilts	0.8	1.4	1.4
Corporate bonds	1.2	1.8	1.8

4.2 Life assurance business

Operating profit for life assurance business is based on expected investment returns on financial investments backing owners' and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, for example mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profit funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

The investment return variances and economic assumption changes excluded from the long-term business operating profit are as follows:

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Investment return variances and economic assumption changes on long-term business	(807)	600	(47)

The net adverse investment return variances and economic assumption changes on long-term business of £807 million in the first half of 2021 (half year ended 30 June 2020: favourable £600 million; year ended 31 December 2020: adverse £47 million) primarily reflect IFRS losses arising on life company hedging positions. The impact of equity and interest rate movements on future profits in relation to with-profit bonuses and unit-linked charges is hedged in order to benefit the regulatory capital position rather than the IFRS net assets. The impact of market movements on the value of the related hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. Such future profits are actively valued under Solvency II requirements but are either not recognised on an IFRS basis or are not revalued unless there is evidence of impairment (e.g. AVIF). This leads to volatility in the Group's IFRS results. As a result of improving equity markets and increasing yields in the first half of the year, losses have been experienced on hedging positions held by the life companies, the absolute quantum of which has also been impacted through the extension of our hedging strategy to the acquired ReAssure business. This compares to the experience in the first half of 2020 where declining equity markets and falling yields gave rise to gains on our hedging positions.

Continued strategic asset allocation initiatives undertaken by the Group, including investment in higher yielding assets and credit management actions provided a partial offset to the adverse variances experienced.

4.3 Owners' funds

For non-long-term business including owners' funds, the total investment income, including fair value gains, is analysed between a calculated longer-term return and short-term fluctuations.

The variances excluded from operating profit in relation to owners' funds are as follows:

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Variances on owners' funds of subsidiary undertakings	**(17)**	27	148

The net adverse variance on owners' funds of subsidiary undertakings of £17 million (30 June 2020: positive £27 million; 31 December 2020: positive £148 million) is driven by losses on hedging positions held within the shareholder funds. Consistent with the impact seen in the long-term business, this reflects rising equity markets and yields. The prior period included gains arising on derivative instruments entered into on announcement of the ReAssure acquisition to protect the Group's exposure to equity risk in the period prior to completion.

5. TAX CHARGE

5.1 Current period tax charge

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Current tax:			
UK corporation tax	**(99)**	201	306
Overseas tax	**39**	20	59
	(60)	221	365
Adjustment in respect of prior years	**8**	(9)	(4)
Total current tax (credit)/charge	**(52)**	212	361
Deferred tax:			
Origination and reversal of temporary differences	**109**	(126)	111
Change in the rate of UK corporation tax	**166**	46	(37)
Write-(up)/down of deferred tax assets	**(10)**	(7)	1
Total deferred tax charge/(credit)	**265**	(87)	75
Total tax charge	**213**	125	436
Attributable to:			
– policyholders	**174**	(32)	326
– owners	**39**	157	110
Total tax charge	**213**	125	436

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each period. Accordingly, the tax credit or expense charge attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings was £174 million (half year ended 30 June 2020: £32 million credit; year ended 31 December 2020: £326 million charge).

5.2 Tax charged to other comprehensive income

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Current tax (credit)/charge	**(1)**	10	12
Deferred tax charge/(credit) on defined benefit schemes	**19**	(4)	25
Total tax charge relating to other comprehensive income items	**18**	6	37

5.3 Tax credited to equity

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Current tax credit on Tier 1 Notes	**(3)**	(3)	(6)

5.4 Reconciliation of tax charge

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
(Loss)/profit before tax	**(454)**	611	1,270
Policyholder tax (charge)/credit	**(174)**	32	(326)
(Loss)/profit before the tax attributable to owners	**(628)**	643	944
Tax (credit)/charge at standard UK rate of 19%[1]	**(119)**	122	179
Non-taxable income, gains and losses[2]	**(7)**	(1)	(78)
Disallowable expenses	**5**	3	9
Prior year tax credit for shareholders[3]	**(3)**	(7)	(17)
Movement on acquired in-force amortisation at rates other than 19%	**13**	3	77
Profits taxed at rates other than 19%[4]	**(3)**	(8)	(10)
Recognition of previously unrecognised deferred tax assets[5]	**(6)**	(7)	(25)
Deferred tax rate change[6]	**166**	46	(37)
Current year losses not valued	**7**	6	9
Deferred consideration[7]	**(12)**	–	–
Other	**(2)**	–	3
Owners' tax charge	**39**	157	110
Policyholder tax charge/(credit)	**174**	(32)	326
Total tax charge for the period	**213**	125	436

1 The Phoenix operating segments are predominantly in the UK. The reconciliation of tax charge has therefore been completed by reference to the standard rate of UK tax.
2 Non-taxable income, gains and losses includes non-taxable dividends and gains and non-taxable pension scheme items.
3 The 2021 prior year credit recognised in the current period relates to fair value adjustments on external loans and a prior year current tax charge relating to double tax relief claims in respect of overseas dividends.
4 Profits taxed at rates other than 19% relates to life company profits which are also subject to marginal policyholder tax rates and profits subject to non-UK tax rates.
5 The 2021 tax credit represents the recognition of ReAssure businesses capital losses of £4 million and Standard Life International DAC trade tax losses of £2 million.
6 The 2021 deferred tax rate change relates to the impact of the new 25% corporation tax rate effective from 1 April 2023.
7 The 2021 tax credit relates to deferred consideration proceeds in respect of the transaction with Abrdn plc (see note 2.1 for further details).

The standard rate of UK corporation tax for the half year ended 30 June 2021 is 19% (half year ended 30 June 2020: 19%; year ended 31 December 2020: 19%). On 3 March 2021, an increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget. Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	**50**	35	52
Provisions and other temporary differences	**–**	8	–
Excess expenses and deferred acquisition costs	**7**	–	7
Intangibles	**12**	12	14
Deferred tax assets not recognised on capital losses[1]	**45**	7	42

1 These can only be recognised against future capital gains and have no expiry date.

6. EARNINGS PER SHARE

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

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

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

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

Half year ended 30 June 2021	**Operating profit £m**	**Financing costs £m**	**Operating earnings net of financing costs £m**	**Other non-operating items £m**	**Total £m**
Profit/(loss) before the tax attributable to owners	**527**	**(111)**	**416**	**(1,044)**	**(628)**
Tax (charge)/credit attributable to owners	**(110)**	**23**	**(87)**	**48**	**(39)**
Profit/(loss) for the period attributable to owners	**417**	**(88)**	**329**	**(996)**	**(667)**
Coupon paid on Tier 1 notes, net of tax relief	**–**	**(12)**	**(12)**	**–**	**(12)**
Deduct: Share of result attributable to non-controlling interests	**–**	**–**	**–**	**(51)**	**(51)**
Profit/(loss) for the period attributable to ordinary equity holders of the parent	**417**	**(100)**	**317**	**(1,047)**	**(730)**

Half year ended 30 June 2020	Operating profit £m	Financing costs £m	Operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	361	(76)	285	358	643
Tax (charge)/credit attributable to owners	(67)	18	(49)	(108)	(157)
Profit/(loss) for the period attributable to owners	294	(58)	236	250	486
Coupon paid on Tier 1 notes, net of tax relief	–	(12)	(12)	–	(12)
Add: Share of result attributable to non-controlling interests	–	–	–	20	20
Profit/(loss) for the period attributable to ordinary equity holders of the parent	294	(70)	224	270	494

Year ended 31 December 2020	Operating profit £m	Financing costs £m	Operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	1,199	(191)	1,008	(64)	944
Tax (charge)/credit attributable to owners	(199)	48	(151)	41	(110)
Profit/(loss) for the year attributable to owners	1,000	(143)	857	(23)	834
Coupon paid on Tier 1 notes, net of tax relief	–	(23)	(23)	–	(23)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(36)	(36)
Profit/(loss) for the year attributable to ordinary equity holders of the parent	1,000	(166)	834	(59)	775

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

	Half year ended 30 June 2021 Number million	Half year ended 30 June 2020 Number million	Year ended 31 December 2020 Number million
Issued ordinary shares at beginning of the period	**999**	722	722
Effect of ordinary shares issued	**–**	–	123
Own shares held by employee benefit trust	**(1)**	(2)	(1)
Weighted average number of ordinary shares	**998**	720	844

The diluted weighted average number of ordinary shares outstanding during the period is 1,001 million (half year ended 30 June 2020: 722 million; year ended 31 December 2020: 846 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave schemes increased the weighted average number of shares on a diluted basis by 2,661,475 shares for the half year ended 30 June 2021 (half year ended 30 June 2020: 1,795,868; year ended 31 December 2020: 2,316,109 shares). As losses have an anti-dilutive effect, none of the share-based awards have a dilutive effect in the calculation of basic earnings per share for the half year ended 30 June 2021.

Earnings per share disclosures are as follows:

	Half year ended 30 June 2021 pence	Half year ended 30 June 2020 pence	Year ended 31 December 2020 pence
Basic earnings per share	**(73.3)**	68.7	91.8
Diluted earnings per share	**(73.3)**	68.5	91.5
Basic operating earnings net of financing costs per share	**31.9**	31.1	98.8
Diluted operating earnings net of financing costs per share	**31.8**	31.0	98.5

7. DIVIDENDS ON ORDINARY SHARES

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m	Year ended 31 December 2020 £m
Dividend declared and paid	**241**	169	403

On 5 March 2021, the Board recommended a final dividend of 24.1p per share in respect of the year ended 31 December 2020. The dividend was approved at the Company's Annual General Meeting, which was held on 14 May 2021. The dividend amounted to £241 million and was paid on 18 May 2021.

8. SHARE CAPITAL

	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Issued and fully paid:			
999.4 million (30 June 2020: 721.7 million; 31 December 2020: 999.2 million) ordinary shares of £0.10 each	**100**	72	100

Movements in share capital during the period:

2021	**Number**	**£**
Shares in issue at 1 January 2021	**999,232,144**	**99,923,214**
Ordinary shares issued in the period	**152,810**	**15,281**
Shares in issue at 30 June 2021	**999,384,954**	**99,938,495**

During the period, the Company issued 152,810 shares at a total premium of £1 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

2020	Number	£
Shares in issue at 1 January 2020	721,514,944	72,151,494
Ordinary shares issued in the period	161,569	16,157
Shares in issue at 30 June 2020	721,676,513	72,167,651
Ordinary shares issued to Swiss Re and MS&AD	277,277,138	27,727,714
Other ordinary shares issued in the period	278,493	27,849
Shares in issue at 31 December 2020	999,232,144	99,923,214

On 22 July 2020, the Group acquired 100% of the issued share capital of ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Limited, for total consideration of £3.1 billion. The consideration consisted of £1.3 billion of cash, funded through the issuance of debt and own resources, and the issue of 277,277,138 shares ('the Acquisition Shares') to Swiss Re Group on 23 July 2020.

Pursuant to an agreement between Swiss Re Group and MS&AD Insurance Group Holdings ('MS&AD'), MS&AD transferred its entire shareholding in ReAssure Group plc to the Swiss Re Group prior to 22 July 2020 in consideration for the transfer of 144,877,304 of the Acquisition Shares at completion. The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

The Group has applied the relief in section 612 of the Companies Act 2006 to present the difference between the consideration received and the nominal value of the shares issued of £1,819 million in a merger reserve as opposed to in share premium. A merger reserve is required to be used as a result of the Group having issued equity shares as part consideration for the shares of ReAssure Group plc and securing at least a 90% holding in that entity.

During the year ended 31 December 2020, 440,062 shares were issued at a premium of £2 million (half year ended 30 June 2020: 161,569 shares were issued at a premium of £1 million) in order to satisfy obligations to employees under the Group's sharesave schemes.

9. OTHER RESERVES

2021	**Owner-occupied property revaluation reserve £m**	**Cash flow hedging reserve £m**	**Total other reserves £m**
At 1 January 2021	**5**	**43**	**48**
Other comprehensive expense for the period	**–**	**(6)**	**(6)**
At 30 June 2021	**5**	**37**	**42**

2020	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Total other reserves £m
At 1 January 2020	5	(7)	(2)
Other comprehensive income for the period	–	55	55
At 30 June 2020	5	48	53
Other comprehensive expense for the period	–	(5)	(5)
At 31 December 2020	5	43	48

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

In April 2020, the Group terminated the derivative instruments which had previously been designated as hedging instruments in its cash flow hedging relationships. Hedge accounting was discontinued from the point of termination of the derivative instruments. The remaining cash flow hedging reserve will continue to be reclassified to profit or loss over the remaining term of the hedged items.

10. NON-CONTROLLING INTERESTS

2021	**SLPET £m**
At 1 January 2021	**341**
Profit for the period	**51**
Dividends paid	**(5)**
At 30 June 2021	**387**

2020	SLPET £m
At 1 January 2020	314
Loss for the period	(20)
Dividends paid	(5)
At 30 June 2020	289
Profit for the period	56
Dividends paid	(4)
At 31 December 2020	341

The non-controlling interests of £387 million (half year ended 30 June 2020: £289 million; year ended 31 December 2020: £341 million) reflects third party ownership of Standard Life Private Equity Trust ('SLPET') determined at the proportionate value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. As at 30 June 2021, the Group held 55.2% of the issued share capital of SLPET (half year ended 30 June 2020: 55.2%; year ended 31 December 2020: 55.2%).

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

11. INTANGIBLE ASSETS

On 23 February 2021, the Group entered into an agreement to acquire ownership of the Standard Life brand, which transferred to the Group in May 2021. At 30 June 2021, 'other intangibles' includes £111 million in respect of the Standard Life brand and represents the fair value attributable to the brand as at the transaction date. The intangible asset was valued on a 'multi-period excess earnings' basis and is being amortised over a period of 30 years. The carrying value of the Standard Life brand as at 30 June 2021 is £110 million.

As part of the transaction with Abrdn on 23 February 2021, the Client Service and Proposition Agreement ('CSPA') entered into between the two groups following the acquisition of the Standard Life businesses in 2018, has been significantly amended prior to being dissolved. As a consequence, the CSPA intangible included within 'other intangibles' has been fully impaired as at this date. The impairment of £30 million has been included within the 'gain on completion of Abrdn transaction' in the condensed consolidated income statement.

Also, under the terms of the Abrdn transaction, the Group has agreed to sell its UK investment and platform-related products (see note 2.1 for further details). The balances in the condensed statement of consolidated financial position relating to the Wrap SIPP, Onshore Bond and TIP business were classified as a disposal group held for sale in February 2021. The total proceeds of disposal for this business are not expected to exceed the carrying value of the related net assets and accordingly the disposal group has been recognised at fair value less costs to sell. An impairment loss has been recognised on classification of the business as held for sale in respect of the acquired in-force business ('AVIF'). The value of the AVIF at 23 February 2021 was £122 million and an impairment of £59 million has been recognised on classification of the AVIF balance as held for sale and has been included within the 'gain on completion of Abrdn transaction' in the condensed consolidated income statement. A further impairment of £3 million has been recognised at 30 June 2021. The AVIF balance classified as held for sale is not being amortised.

As a 30 June 2021, following the Group Board's approval to dispose of Ark Life Assurance Company DAC, the entity has been classified as a disposal group held for sale as at 30 June 2021 (see note 2.2 for further details). The proceeds of disposal are not expected to exceed the carrying value of the related net assets and accordingly the disposal group has been recognised at fair value less costs to sell. An impairment loss of £18 million has been recognised in respect of the AVIF on classification of the business as held for sale and recognised within 'amortisation and impairment of acquired in-force business' in the condensed consolidated income statement.

12. PENSION SCHEMES

The condensed statement of consolidated financial position incorporates the pension scheme assets and liabilities of the PGL Pension Scheme, the Pearl Group Staff Pension Scheme ('Pearl Scheme'), the Abbey Life Staff Pension Scheme, the ReAssure Staff Pension Scheme and the ReAssure Private Retirement Trust as at 30 June 2021.

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

The economic surplus of the PGL Pension Scheme amounted to £30 million (30 June 2020: £33 million; 31 December 2020: £30 million). The carrying value of insurance policies effected by the PGL Pension Scheme with the Group of £1,653 million (30 June 2020: £1,764 million; 31 December 2020: £1,749 million) is eliminated on consolidation. The remaining economic surplus is expected to cover future anticipated pension scheme administration expenses and consequently no deduction for the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme has been made. The resulting net pension scheme liability of the PGL Pension Scheme amounted to £1,623 million (30 June 2020: £1,731 million; 31 December 2020: £1,719 million). The value of the collateral assets disclosed within financial assets in the condensed statement of consolidated financial position is £2,052 million (30 June 2020: £2,262 million; 31 December 2020: £2,177 million).

On 17 November 2020, the Pearl Scheme entered into a Commitment Agreement with PGH2 to complete a series of buy-ins that are scheduled to be executed by 31 December 2023. At the same time, the Pearl Scheme completed the first buy-in with PLL covering 25% of the Scheme's pensioner in-payment and deferred member liabilities, transferring the associated risks to PLL effective from 30 September 2020.

The Scheme transferred £731 million of plan assets to PLL which constituted the payment of £735 million of premium to PLL and was net of a £4 million payment by PLL to the scheme in respect of benefits for October and November 2020. The assets transferred to PLL are recognised in the relevant line within financial assets in the condensed statement of consolidated financial position. The economic effect of the buy-in transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is subsequently eliminated on consolidation. The value of this insurance policy at 30 September 2020 was £604 million. A second buy-in transaction was completed in July 2021, further details of which are included in note 19.

As at 30 June 2021, the economic surplus of the Pearl Scheme amounted to £492 million (30 June 2020: £606 million; 31 December 2020: £527 million). The carrying value of insurance policies effected by the Pearl Scheme with the Group of £564 million (30 June 2020: £nil; 31 December 2020: £596 million) is eliminated on consolidation. The pension scheme liability of the Pearl Scheme amounted to £245 million (30 June 2020: asset £377 million; 31 December 2020: liability £254 million). Pension scheme assets are stated after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme and after adjusting for the irrecoverable amount of minimum funding requirement obligations.

The pension scheme liability of the Abbey Life Staff Pension Scheme amounted to £52 million (30 June 2020: £87 million; 31 December 2020: £61 million).

The pension scheme asset of the ReAssure Staff Pension Scheme amounted to £21 million (31 December 2020: £11 million) and is stated after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme.

The pension scheme liability of the ReAssure Private Retirement Trust amounted to £2 million (31 December 2020: £2 million).

13. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS

13.1 Valuation of participating insurance and investment contracts and contracts with discretionary participation features

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

13.2 Valuation of non-participating insurance contracts

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

13.3 Process used to determine assumptions

In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group uses a risk-free rate derived from the swap yield curve, plus an illiquidity premium of 10bps. For certain non-participating business, (e.g. annuities) the Group makes a further explicit adjustment to the risk-free rate to reflect illiquidity in respect of the assets backing those liabilities.

For participating insurance business in realistic basis companies the assumptions about future demographic trends represent best estimates. They are determined after considering the companies' recent experience and/or relevant industry data. Economic assumptions are market consistent.

For non-participating insurance business, demographic assumptions are derived by setting assumptions at management's best estimates and recognising an explicit margin for demographic risks.

During the period a number of changes were made to assumptions to reflect changes in expected experience. The impact of material changes that impacted the result attributable to owners during the period was as follows:

	(Decrease)/ increase in insurance liabilities 30 June 2021 £m	Increase in insurance liabilities 30 June 2020 £m	(Decrease)/ increase in insurance liabilities 31 December 2020 £m
Change in longevity assumptions	**–**	–	(369)
Change in persistency assumptions	**(10)**	4	6
Change in mortality assumptions	**3**	–	31
Change in expense assumptions	**50**	58	(36)

The £50 million impact of changes in expense assumptions includes £35 million in relation to additional expected costs associated with the delivery of the Group Target Operating Model for IT and Operations.

Factors related to the COVID-19 pandemic are expected to have impacted policyholder behaviour (including persistency) and demographic experience in the period and are likely to continue to do so in the future. The Group's results have continued to be impacted during the period by adverse mortality experience on the protection business, but this has been offset by positive longevity experience on the annuity business. Following the 'second wave' of COVID-19 deaths at the end of 2020, the Group recognised a short-term actuarial provision of £10 million in anticipation of excess deaths relative to valuation assumptions. This provision remains unchanged at 30 June 2021.The impact over the longer-term continues to be monitored on a regular basis, however no further adjustments to assumptions as a result of the impacts of COVID-19 have been deemed necessary.

14. BORROWINGS

	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Carrying value			
Limited recourse bonds 2022 7.59%	**–**	35	–
Property reversions loan	**74**	84	84
Total policyholder borrowings	**74**	119	84
£200 million 7.25% unsecured subordinated loan	**–**	199	200
£300 million senior unsecured bond	**122**	121	122
£428 million Tier 2 subordinated notes	**427**	426	426
£450 million Tier 3 subordinated notes	**449**	449	449
US $500 million Tier 2 bonds	**360**	402	364
€500 million Tier 2 bonds	**424**	448	442
US $750 million Contingent Convertible Tier 1 notes	**538**	601	545
£500 million Tier 2 notes	**485**	483	484
US $500 million Fixed Rate Reset Tier 2 notes	**359**	401	364
£500 million 5.867% Tier 2 subordinated notes	**553**	–	556
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	**269**	–	272
£250 million 4.016% Tier 3 subordinated notes	**258**	–	259
Total shareholder borrowings	**4,244**	3,530	4,483
Total borrowings	**4,318**	3,649	4,567

On 25 March 2021, PLL redeemed its £200 million 7.25% undated subordinated notes in full. The notes were redeemed at their principal amount, together with interest accrued to the repayment date.

15. FINANCIAL INSTRUMENTS

15.1 Fair values

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

	30 June 2021		30 June 2020		31 December 2020	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets measured at carrying and fair values						
Financial assets at fair value through profit or loss ('FVTPL'):						
Held for trading – derivatives	**4,708**	**4,708**	6,836	6,836	6,880	6,880
Designated upon initial recognition:						
Equities	**86,436**	**86,436**	54,187	54,187	82,634	82,634
Investment in associate	**444**	**444**	347	347	400	400
Debt securities	**104,310**	**104,310**	78,599	78,599	109,455	109,455
Collective investment schemes	**90,489**	**90,489**	69,185	69,185	89,248	89,248
Reinsurers' share of investment contract liabilities	**9,732**	**9,732**	8,523	8,523	9,559	9,559
Financial assets measured at amortised cost:						
Loans and deposits	**649**	**649**	974	974	647	647
Total financial assets	**296,768**	**296,768**	218,651	218,651	298,823	298,823
Less amounts classified as held for sale (note 2)	**(8,390)**	**(8,390)**	–	–	–	–
Total financial assets less amounts classified as held for sale	**288,378**	**288,378**	218,651	218,651	298,823	298,823

	30 June 2021		30 June 2020		31 December 2020	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial liabilities measured at carrying and fair values						
Financial liabilities at FVTPL:						
Held for trading – derivatives	**1,104**	**1,104**	1,041	1,041	1,001	1,001
Designated upon initial recognition:						
Borrowings	**74**	**74**	84	84	84	84
Net asset value attributable to unitholders	**3,666**	**3,666**	2,742	2,742	3,791	3,791
Investment contract liabilities	**170,131**	**170,131**	115,660	115,660	165,106	165,106
Financial liabilities measured at amortised cost:						
Borrowings	**4,244**	**4,284**	3,565	3,782	4,483	5,016
Deposits received from reinsurers	**3,770**	**3,770**	4,092	4,092	4,080	4,080
Obligations for repayment of collateral received	**3,482**	**3,482**	5,590	5,590	5,205	5,205
Total financial liabilities	**186,471**	**186,511**	132,774	132,991	183,750	184,283
Less amounts classified as held for sale (note 2)	**(13,527)**	**(13,527)**	–	–	–	–
Total financial liabilities less amounts classified as held for sale	**172,944**	**172,984**	132,774	132,991	183,750	184,283

15.2 Fair value hierarchy

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

Level 1 financial instruments

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

Level 2 financial instruments

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

Level 3 financial instruments

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

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

15.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2021

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	296	4,172	240	4,708
Financial assets designated at FVTPL upon initial recognition:				
Equities	84,696	54	1,686	86,436
Investment in associate	444	–	–	444
Debt securities	68,269	25,232	10,809	104,310
Collective investment schemes	88,018	2,157	314	90,489
Reinsurers' share of investment contract liabilities	9,732	–	–	9,732
	251,159	27,443	12,809	291,411
Total financial assets measured at fair value	251,455	31,615	13,049	296,119
Less amounts classified as held for sale (note 2)	(8,148)	(234)	(8)	(8,390)
Total financial assets measured at fair value less amounts classified as held for sale	243,307	31,381	13,041	287,729

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	83	906	115	1,104
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	74	74
Net asset value attributable to unitholders	3,666	–	–	3,666
Investment contract liabilities	–	170,131	–	170,131
	3,666	170,131	74	173,871
Total financial liabilities measured at fair value	3,749	171,037	189	174,975
Less amounts classified as held for sale (note 2)	(1)	(13,526)	–	(13,527)
Total financial liabilities measured at fair value less amounts classified as held for sale	3,748	157,511	189	161,448

At 30 June 2020

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	391	6,231	214	6,836
Financial assets designated at FVTPL upon initial recognition:				
Equities	52,736	–	1,451	54,187
Investment in associate	347	–	–	347
Debt securities	52,342	19,232	7,025	78,599
Collective investment schemes	66,515	1,155	1,515	69,185
Reinsurers' share of investment contract liabilities	8,426	–	97	8,523
	180,366	20,387	10,088	210,841
Total financial assets measured at fair value	180,757	26,618	10,302	217,677

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	75	868	98	1,041
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	84	84
Net asset value attributable to unitholders	2,742	–	–	2,742
Investment contract liabilities	–	114,772	888	115,660
	2,742	114,772	972	118,486
Total financial liabilities measured at fair value	2,817	115,640	1,070	119,527

At 31 December 2020

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	320	6,362	198	6,880
Financial assets designated at FVTPL upon initial recognition:				
Equities	81,024	47	1,563	82,634
Investment in associate	400	–	–	400
Debt securities	74,043	25,248	10,164	109,455
Collective investment schemes	86,677	2,170	401	89,248
Reinsurers' share of investment contract liabilities	8,962	597	–	9,559
	251,106	28,062	12,128	291,296
Total financial assets measured at fair value	251,426	34,424	12,326	298,176

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	119	720	162	1,001
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	84	84
Net asset value attributable to unitholders	3,791	–	–	3,791
Investment contract liabilities	–	165,106	–	165,106
	3,791	165,106	84	168,981
Total financial liabilities measured at fair value	3,910	165,826	246	169,982

15.2.3 Level 3 financial instruments

A proportion of the Group's level 3 financial assets are held to back unit linked business and unsupported with-profit funds. As such, movements in the fair value of those assets will typically be offset by corresponding movements in insurance and investment contract liabilities. From a financial reporting perspective, valuation risk is centred on those assets held in the shareholder funds or to back liabilities in the non-profit or supported with-profit funds. The table below shows the shareholder exposure to Level 3 assets as at 30 June 2021:

	Shareholder, NPF & Supported WPF £m	Unit linked & Unsupported WPF £m	Total fair value £m
Financial assets measured at fair value			
Derivatives	**240**	**–**	**240**
Financial assets designated at FVTPL upon initial recognition:			
Equities	**850**	**836**	**1,686**
Debt securities	**9,783**	**1,026**	**10,809**
Collective investment schemes	**12**	**302**	**314**
	10,645	**2,164**	**12,809**
Total financial assets measured at fair value	**10,885**	**2,164**	**13,049**
Less amounts classified as held for sale (note 2)	**–**	**(8)**	**(8)**
Total financial assets measured at fair value less amounts classified as held for sale	**10,885**	**2,156**	**13,041**

15.2.4 Level 3 financial instrument sensitivities

Level 3 investments in equities (including private equity and unlisted property investment vehicles) and collective investment schemes (including hedge funds) are valued using net asset statements provided by independent third parties, and therefore no sensitivity analysis has been prepared.

Debt securities

Analysis of Level 3 debt securities	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Unquoted corporate bonds:			
Local authority loans	**737**	359	646
Private placements	**2,579**	1,563	2,351
Infrastructure loans	**1,595**	391	1,564
Equity release mortgages	**3,558**	3,111	3,484
Commercial real estate loans	**1,142**	389	1,075
Income strips	**844**	693	692
Bridging loans to private equity funds	**342**	393	320
Corporate transactions	**–**	31	29
Other	**12**	95	3
Total Level 3 debt securities	**10,809**	7,025	10,164

The Group holds unquoted corporate bonds comprising investments in local authority loans, private placements and infrastructure loans with a total value of £4,911 million (30 June 2020: £2,313 million; 31 December 2020: £4,561 million). These unquoted corporate bonds are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is taken from a basket of comparable securities and the valuations are sensitive to movements in this spread. An increase of 65bps would decrease the value by £387 million (an increase of 35bps: 30 June 2020: £105 million; 31 December 2020: £246 million) and a decrease of 65bps would increase the value by £419 million (a decrease of 35bps: 30 June 2020: £115 million; 31 December 2020: £190 million).

There remains ongoing uncertainty in respect of the credit ratings for unquoted corporate bonds and commercial real estate loans in light of the continuing economic uncertainty. Internal review processes are in place to closely monitor credit ratings and additional reviews are carried out as required, for example when triggered by credit performance or market factors.

Included within debt securities are investments in equity release mortgages with a value of £3,558 million (30 June 2020: £3,111 million; 31 December 2020: £3,484 million). The loans are valued using a discounted cash flow model and a Black-Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

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

Cash flows are discounted using a risk-free curve plus a spread, where the spread is based on recent originations, with margins to allow for the different risk profiles of ERM loans.

Considering the fair valuation uses certain inputs that are not market observable, the fair value measurement of these loans has been categorised as a Level 3 fair value. The key non-market observable input is the voluntary redemption rate, for which the assumption varies by the origin, age and loan to value ratio of each portfolio. Experience analysis is used to inform this assumption; however, where experience is limited for more recently originated loans, significant expert judgement is required.

The significant sensitivities arise from movements in the yield curve, inflation rate, house prices and the voluntary redemption rate. An increase of 100bps in the yield curve would decrease the value by £355 million (30 June 2020: £300 million; 31 December 2020: £351 million) and a decrease of 100bps would increase the value by £405 million (30 June 2020: £384 million; 31 December 2020: £397 million). An increase of 1% in the inflation rate would increase the value by £21 million (30 June 2020: £32 million; 31 December 2020: £29 million) and a decrease of 1% would decrease the value by £37 million (30 June 2020: £50 million; 31 December 2020: £48 million).

An increase of 10% in house prices would increase the value by £11 million (30 June 2020: £17 million; 31 December 2020: £16 million) and a decrease of 10% would decrease the value by £22 million (30 June 2020: £28 million; 31 December 2020: £26 million). An increase of 5% in mortality would decrease the value by £8 million (30 June 2020: £9 million; 31 December 2020: £11 million) and a decrease of 5% in mortality would increase the value by £4 million (30 June 2020: £6 million; 31 December 2020: £7 million). An increase of 15% in the voluntary redemption rate would decrease the value by £14 million (30 June 2020: £21 million; 31 December 2020: £24 million) and a decrease of 15% in the voluntary redemption rate would increase the value by £11 million (30 June 2020: £18 million; 31 December 2020: £22 million).

The Group also holds investments in commercial real estate loans with a value of £1,142 million (30 June 2020: £389 million; 31 December 2020: £1,075 million). The loans are valued using a model which discounts the expected projected future cash flows at the risk-free rate plus a spread derived from a basket of comparable securities. The valuation is sensitive to changes in the discount rate. An increase of 35bps in the discount rate would decrease the value by £19 million (30 June 2020: £7 million; 31 December 2020: £15 million) and a decrease of 35bps would increase the value by £22 million (30 June 2020: £7 million; 31 December 2020: £16 million).

Also included within debt securities are income strips with a value of £844 million (30 June 2020: £693 million; 31 December 2020: £692 million). Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30-45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1). The income strips are valued using an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. The valuation is sensitive to movements in yield. An increase of 35bps would decrease the value by £88 million (30 June 2020: £66 million; 31 December 2020: £68 million) and a decrease of 35bps would increase the value by £114 million (30 June 2020: £81 million; 31 December 2020: £86 million).

Borrowings
Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £74 million (30 June 2020: £84 million; 31 December 2020: £84 million), measured using an internally developed model. The valuation is sensitive to key assumptions of the discount rate. An increase in the discount rate of 1% would decrease the value by £1 million (30 June 2020: £1 million; 31 December 2020: £1 million) and a decrease of 1% would increase the value by £1 million (30 June 2020: £1 million; 31 December 2020: £1 million).

Derivatives
Included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £228 million (30 June 2020: £167 million; 31 December 2020: £155 million) and £43 million (30 June 2020: £95 million; 31 December 2020: £85 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the EIOPA interest rate swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the net value by £36 million (30 June 2020: £18 million; 31 December 2020: £15 million) and a decrease of 100bps would increase the net value by £48 million (30 June 2020: £19 million; 31 December 2020: £17 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £18 million (30 June 2020: £13 million; 31 December 2020: £11 million) and a decrease of 1% would decrease the value by £29 million (30 June 2020: £14 million; 31 December 2020: £12 million).

Included within derivative assets and liabilities are forward local authority loans, forward private placements and forward infrastructure loans with a net derivative asset value of £7 million (30 June 2020: £47 million; 31 December 2020: £43 million). These investments include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates. These investments are valued using a discounted cash flow model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity.

The credit spreads are derived from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £25 million (30 June 2020: £18 million; 31 December 2020: £19 million) and a decrease of 35bps would increase the value by £28 million (30 June 2020: £20 million; 31 December 2020: £20 million).

Also included within derivative liabilities is the Equity Release Income Plan ('ERIP') total return swap with a value of £69 million (31 December 2020: £75 million), under which a share of the disposal proceeds arising on a portfolio of property reversions is payable to a third party. The carrying value of the financial liability is the discounted present value of all future property sales that will be passed to the counterparty as part of the swap arrangement. The valuation is sensitive to the discount rate applied. An increase of 1% in the discount rate would decrease the value by £2 million (31 December 2020: £3 million) and a decrease of 1% in the discount rate would increase the value by £2 million (31 December 2020: £3 million).

15.2.5 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2021

	From Level 1 to Level 2 £m	**From Level 2 to Level 1 £m**
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Debt securities	**3,003**	**1,160**

At 30 June 2020

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Debt securities	337	11,501

At 31 December 2020

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition		
Debt securities	492	10,174
Collective investment schemes	1	–

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

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

15.2.6 Movement in Level 3 financial instruments measured at fair value

30 June 2021

	At 1 January 2021 £m	Net (losses)/gains in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2021 £m	Unrealised (losses)/gains on assets held at end of period £m
Financial assets								
Derivatives	**198**	**(71)**	**113**	**–**	**–**	**–**	**240**	**(79)**
Financial assets designated at FVTPL upon initial recognition:								
Equities	**1,563**	**184**	**103**	**(162)**	**–**	**(2)**	**1,686**	**132**
Debt securities	**10,164**	**(261)**	**2,244**	**(1,357)**	**28**	**(9)**	**10,809**	**(362)**
Collective investment schemes	**401**	**(35)**	**16**	**(68)**	**–**	**–**	**314**	**45**
	12,128	**(112)**	**2,363**	**(1,587)**	**28**	**(11)**	**12,809**	**(185)**
Total financial assets	**12,326**	**(183)**	**2,476**	**(1,587)**	**28**	**(11)**	**13,049**	**(264)**
Less amounts classified as held for sale (note 2)							**(8)**	
Total financial assets less amounts classified as held for sale							**13,041**	

	At 1 January 2021 £m	Net gains in income statement £m	Effect of purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2021 £m	Unrealised gains on liabilities held at end period £m
Financial liabilities								
Derivatives	**162**	**(37)**	**–**	**(10)**	**–**	**–**	**115**	**(42)**
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	**84**	**(1)**	**–**	**(9)**	**–**	**–**	**74**	**(1)**
	246	**(38)**	**–**	**(19)**	**–**	**–**	**189**	**(43)**
Total financial liabilities	**246**	**(38)**	**–**	**(19)**	**–**	**–**	**189**	**(43)**

Gains and losses on Level 3 financial instruments are included in net investment income in the condensed consolidated income statement. There were no gains or losses recognised in other comprehensive income in either the current or comparative periods.

30 June 2020

	At 1 January 2020 £m	Net gains/(losses) in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2020 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets								
Derivatives	175	39	–	–	–	–	214	39
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,596	(61)	116	(200)	–	–	1,451	(80)
Debt securities	6,026	221	2,232	(1,499)	45	–	7,025	237
Collective investment schemes	646	(148)	49	(157)	1,125	–	1,515	(147)
Reinsurers' share of investment contract liabilities	–	(5)	1	(4)	105	–	97	–
	8,268	7	2,398	(1,860)	1,275	–	10,088	10
Total financial assets	8,443	46	2,398	(1,860)	1,275	–	10,302	49

	At 1 January 2020 £m	Net losses/(gains) in income statement £m	Effect of purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2020 £m	Unrealised losses/ (gains) on liabilities held at end of period £m
Financial liabilities								
Derivatives	74	24	–	–	–	–	98	24
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	99	(1)	–	(14)	–	–	84	(1)
Investment contract liabilities	–	(61)	26	(62)	985	–	888	(57)
Total financial liabilities	173	(38)	26	(76)	985	–	1,070	(34)

During the half year ended 30 June 2020, as a result of the suspension of certain property collective investment schemes and the inclusion of valuation uncertainty clauses in the valuations of the properties within the collective investment schemes provided by RICS independent valuers, £1,125 million of the property collective investment schemes (and associated investment contract liabilities of £985 million and reinsurer's share of investment contract liabilities of £105 million) were reclassified from Level 2 to Level 3.

31 December 2020

	At 1 January 2020 £m	Net gains/(losses) in income statement £m	Effect of acquisitions/ purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2020 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets								
Derivatives	175	23	–	–	–	–	198	36
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,596	113	213	(361)	2	–	1,563	44
Debt securities	6,026	432	6,301	(2,635)	63	(23)	10,164	471
Collective investment schemes	646	(161)	1	(85)	–	–	401	(100)
	8,268	384	6,515	(3,081)	65	(23)	12,128	415
Total financial assets	8,443	407	6,515	(3,081)	65	(23)	12,326	451

	At 1 January 2020 £m	Net losses in income statement £m	Effect of acquisitions/ purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2020 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	74	17	78	(7)	–	–	162	13
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	99	4	–	(19)	–	–	84	4
Total financial liabilities	173	21	78	(26)	–	–	246	17

16. CASH FLOWS FROM OPERATING ACTIVITIES

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

	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 restated[1] £m	Year ended 31 December 2020 £m
(Loss)/profit for the period before tax	**(454)**	611	1,270
Non-cash movements in profit for the period before tax			
Gain on completion of Abrdn transaction	**(110)**	–	–
Gain on acquisition	**–**	–	(372)
Gain on Part VII portfolio transfer	**–**	–	(85)
Fair value (gains)/losses on:			
Investment property	**(371)**	148	52
Financial assets and derivative liabilities	**(3,960)**	2,177	(10,806)
Change in fair value of borrowings	**(35)**	93	(39)
Amortisation and impairment of intangible assets	**303**	187	487
Change in unallocated surplus	**(79)**	69	113
Share-based payment charge	**6**	8	13
Finance costs	**123**	106	234
Net interest expense on Group defined benefit pension scheme liability/asset	**16**	14	29
Pension past service costs	**–**	–	2
Other costs of pension schemes	**3**	2	5
Decrease/(increase) in investment assets	**4,907**	(1,002)	8,254
Decrease in reinsurance assets	**742**	1,488	708
Increase/(decrease) in insurance contract and investment contract liabilities	**500**	(4,375)	6,261
Decrease in deposits received from reinsurers	**(315)**	(127)	(236)
(Decrease)/increase in obligation for repayment of collateral received	**(1,722)**	1,918	1,146
Net (increase)/decrease in working capital	**(801)**	(201)	211
Other items:			
Contributions to defined benefit pension schemes	**(5)**	(23)	(77)
Cash transferred under Part VII portfolio transfer	**–**	–	146
Cash (utilised)/generated by operations	**(1,252)**	1,093	7,316

[1] See note 1.1 for details of the restatement.

17. RELATED PARTY TRANSACTIONS

On 23 February 2021, the Group entered into a new agreement with Abrdn to simplify the arrangements of their Strategic Partnership (see note 2.1 for further details). As part of the acquisition of the brand, the relevant marketing, distribution and data team members transferred to the Group. Consequently, the Client Service and Proposition Agreement ('CSPA') entered into between the two groups following the acquisition of the Standard Life businesses in 2018, has been significantly amended prior to being dissolved. As a consequence of this transaction, it has been assessed that Abrdn no longer has significant influence over the Group and as a result is not considered to be a related party of the Group from the date the Group entered into the new agreement.

The related party transactions with Abrdn were the only related party transactions considered to have a material effect on either the results or financial position of the Group. Transactions with Abrdn during the period ended 23 February 2021 have been included below:

	Transactions Half year ended 30 June 2021 £m	Transactions Half year ended 30 June 2020 £m	Balances outstanding 30 June 2020 £m	Transactions Year ended 31 December 2020 £m	Balances outstanding 31 December 2020 £m
Abrdn					
Investment management fees	**(20)**	(52)	(44)	(125)	(54)
Fees under Transitional Services Arrangement and material outsource agreements	**(4)**	(3)	(1)	(6)	(2)
Receipts under Transitional Services Arrangement	**–**	32	20	64	19
Net receipts under Client Service Proposition Agreement	**–**	8	30	16	36
Net payments under deed of indemnity	**–**	(3)	(67)	6	(68)

18. CONTINGENT LIABILITIES

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

19. EVENTS AFTER THE REPORTING PERIOD

On 7 July 2021, the Group's senior unsecured bonds matured and the £122 million outstanding balance was repaid in full along with the final coupon of £7 million.

On 13 July 2021, the Group announced that it had entered into an agreement to sell Ark Life Assurance Company DAC ('Ark Life') to Irish Life Group Limited for a total cash consideration of €230 million (£197 million), which is payable on completion in early 2022, subject to customary regulatory and anti-trust approvals. As at 30 June 2021, Ark Life has been classified as a disposal group held for sale (see note 2.2. for further details).

On 22 July 2021, the Group completed a second buy-in transaction with the Pearl Pension Scheme covering a further 35% of the Scheme's pensioner and deferred member liabilities, transferring the associated risks to Phoenix Life Limited ('PLL'). Plan assets have been transferred to PLL in satisfaction of the £998 million premium.

On 10 August 2021, the Board declared an interim dividend per share of 24.1p for the half year ended 30 June 2021 (half year ended 30 June 2020: 23.4p). The cost of this dividend has not been recognised as a liability in the interim financial statements for the half year ended 30 June 2021 and will be charged to the statement of consolidated changes in equity when paid.

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies and is stated net of derivative liabilities. It excludes other Group assets such as cash held in the holding and management service companies and assets held by the non-controlling interest in consolidated collective investment schemes.

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

30 June 2021

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	4,680	1,632	7,777	9,653	23,742
Debt securities – gilts and foreign government bonds	6,182	311	20,515	14,893	41,901
Debt securities – other government and supranational	2,443	307	2,102	7,967	12,819
Debt securities – infrastructure loans[4]	1,635	–	–	–	1,635
Debt securities – UK local authority loans and US municipal bonds[5]	862	–	16	7	885
Debt securities – private placements[6]	3,506	1	227	58	3,792
Debt securities – other bonds	18,262	1,523	16,602	21,901	58,288
	32,890	2,142	39,462	44,826	119,320
Equity securities	119	48	20,659	113,323	134,149
Property investments	80	27	2,120	7,153	9,380
Equity release mortgages	3,558	–	–	–	3,558
Commercial real estate loans	1,142	–	–	–	1,142
Income strips	–	–	–	844	844
Other investments[7]	648	425	3,426	9,896	14,395
Total Life Company assets	43,117	4,274	73,444	185,695	306,530
Less assets held by disposal groups[8]	(214)	–	–	(13,601)	(13,815)
At 30 June 2021	42,903	4,274	73,444	172,094	292,715
Cash and cash equivalents in Group holding companies					1,144
Cash and financial assets in other Group companies					741
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,236
Financial assets in consolidated funds held by disposal groups[8]					1,844
Total Group consolidated assets excluding amounts classified as held for sale					300,680
Comprised of:					
Investment property					4,291
Financial assets					288,378
Cash and cash equivalents					9,112
Derivative liabilities					(1,101)
					300,680

1 Includes assets where shareholders of the life companies bear the investment risk.
2 Includes assets where policyholders bear most of the investment risk.
3 This information is presented on a look-through basis to underlying funds where available.
4 Total infrastructure loans of £1,635 million include £1,595 million classified as Level 3 debt securities in the fair value hierarchy.
5 Total UK local authority loans and US municipal bonds of £885 million include £737 million classified as Level 3 debt securities in the fair value hierarchy.
6 Total private placements of £3,792 million include £2,579 million classified as Level 3 debt securities in the fair value hierarchy. Total loans guaranteed by export credit agencies of £211 million has been reported within this total.
7 Includes policy loans of £12 million, other loans of £285 million, net derivative assets of £3,778 million, reinsurers' share of investment contracts of £9,732 million and other investments of £588 million.
8 See note 2 to the condensed consolidated interim financial statements for further details.

31 December 2020

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	5,908	1,854	8,336	10,246	26,344
Debt securities – gilts and foreign government bonds	6,999	386	22,295	14,458	44,138
Debt securities – other government and supranational	2,257	294	2,220	7,815	12,586
Debt securities – infrastructure loans	1,564	–	–	–	1,564
Debt securities – UK local authority loans[4]	696	–	–	–	696
Debt securities – private placements and export credit agency (ECA)[5]	3,330	1	262	51	3,644
Debt securities – other bonds	20,371	1,587	18,322	24,412	64,692
	35,217	2,268	43,099	46,736	127,320
Equity securities	113	45	19,621	106,120	125,899
Property investments	81	30	2,054	6,409	8,574
Equity release mortgages	3,484	–	–	–	3,484
Commercial real estate loans	1,075	–	–	–	1,075
Income strips	–	–	–	692	692
Other investments[6]	923	711	4,916	10,009	16,559
At 31 December 2020	46,801	4,908	78,026	180,212	309,947
Cash and cash equivalents in Group holding companies					1,055
Cash and financial assets in other Group companies					776
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,170
Total Group consolidated assets					315,948
Comprised of:					
Investment property					7,128
Financial assets					298,823
Cash and cash equivalents					10,998
Derivative liabilities					(1,001)
					315,948

1 Includes assets where shareholders of the life companies bear the investment risk.
2 Includes assets where policyholders bear most of the investment risk.
3 This information is presented on a look-through basis to underlying funds where available.
4 Total UK local authority loans of £696 million include £646 million classified as Level 3 debt securities in the fair value hierarchy.
5 Total private placements of £3,644 million include £2,351 million classified as Level 3 debt securities in the fair value hierarchy.
6 Includes policy loans of £10 million, other loans of £344 million, net derivative assets of £6,083 million, reinsurers' share of investment contracts of £9,559 million and other investments of £563 million.

The following table provides a reconciliation of the total life company assets to the Assets Under Administration ('AUA') as detailed in the Business Review on page 7.

	At 30 June 2021 £bn	At 31 December 2020 £bn
Total Life Company assets	**292.7**	309.9
Off-balance sheet AUA[1]	**11.7**	37.5
Less: Standard Life Trustee Investment Plan assets[2]	**–**	(9.7)
Assets Under Administration	**304.4**	337.7

1 Off-balance sheet AUA represents assets held in respect of certain Group Self-invested Personal Pension products where the beneficial ownership interest resides with the customer (and which are therefore not recognised in the condensed consolidated statement of financial position) but on which the Group earns fee revenue.
2 Assets held within the Standard Life Trustee Investment Plan product are excluded from AUA as materially all profits accrue to third party investment managers.

All of the life companies' debt securities are held at fair value through profit or loss in accordance with IAS 39 Financial Instruments: *Recognition and Measurement*, and therefore already reflect any reduction in value between the date of purchase and the reporting date.

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

Financials

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

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

Sector analysis of shareholder bond portfolio	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB & below £m**	**Total £m**
Industrials	**–**	**168**	**294**	**846**	**36**	**1,344**
Basic materials	**–**	**–**	**232**	**27**	**–**	**259**
Consumer, cyclical	**11**	**447**	**383**	**193**	**16**	**1,050**
Technology and telecoms	**164**	**257**	**567**	**696**	**1**	**1,685**
Consumer, non-cyclical	**255**	**350**	**1,090**	**481**	**–**	**2,176**
Structured finance	**–**	**–**	**57**	**–**	**–**	**57**
Banks[1]	**758**	**817**	**3,162**	**659**	**32**	**5,428**
Financial services	**61**	**260**	**342**	**181**	**10**	**854**
Diversified	**–**	**6**	**30**	**–**	**–**	**36**
Utilities	**24**	**122**	**1,523**	**1,548**	**–**	**3,217**
Sovereign, sub-sovereign and supranational[2]	**1,592**	**7,368**	**659**	**116**	**–**	**9,735**
Real estate	**36**	**216**	**2,714**	**331**	**147**	**3,444**
Investment companies	**31**	**175**	**2**	**–**	**–**	**208**
Insurance	**16**	**565**	**464**	**62**	**16**	**1,123**
Oil and gas	**–**	**141**	**392**	**73**	**–**	**606**
Collateralised debt obligations	**–**	**8**	**–**	**–**	**–**	**8**
Private equity loans	**–**	**–**	**–**	**26**	**–**	**26**
Infrastructure	**–**	**26**	**399**	**1,040**	**169**	**1,634**
At 30 June 2021	**2,948**	**10,926**	**12,310**	**6,279**	**427**	**32,890**

1 The £5,428 million total shareholder exposure to bank debt comprised £4,139 million senior debt and £1,289 million subordinated debt.
2 Includes £885 million reported as UK local authority loans & US municipal bonds and £248 million reported as private placements in the summary table on page 62.

Sector analysis of shareholder bond portfolio	AAA £m	AA £m	A £m	BBB £m	BB & below £m	Total £m
Industrials	–	81	306	978	47	1,412
Basic materials	–	–	201	40	–	241
Consumer, cyclical	12	484	388	238	82	1,204
Technology and telecoms	175	288	719	782	–	1,964
Consumer, non-cyclical	270	309	1,239	549	–	2,367
Structured finance	–	–	56	–	–	56
Banks[1]	857	805	3,328	695	66	5,751
Financial services	92	279	350	246	2	969
Diversified	–	7	31	–	–	38
Utilities	28	130	2,153	1,660	–	3,971
Sovereign, sub-sovereign and supranational[2]	1,421	8,149	483	85	11	10,149
Real estate	37	171	2,856	321	104	3,489
Investment companies	33	193	–	4	–	230
Insurance	–	573	463	84	12	1,132
Oil and gas	–	212	350	83	–	645
Collateralised debt obligations	–	8	–	–	–	8
Private equity loans	–	–	22	5	–	27
Infrastructure	–	25	388	1,004	147	1,564
At 31 December 2020	2,925	11,714	13,333	6,774	471	35,217

1 The £5,751 million total shareholder exposure to bank debt comprised £4,316 million senior debt and £1,435 million subordinated debt.
2 Includes £696 million reported as UK local authority loans and £197 million reported as private placements in the summary table on page 63.

ADDITIONAL CAPITAL DISCLOSURES

PGH PLC SOLVENCY II SURPLUS

The estimated PGH plc surplus at 30 June 2021 is £5.1 billion (31 December 2020: £5.3 billion).

	30 June 2021 Estimated £bn	31 December 2020 £bn
Own Funds	**15.6**	16.8
SCR	**(10.5)**	(11.5)
Surplus	**5.1**	5.3

The Eligible Own Funds reflects a dynamic recalculation of TMTP. Had this not been performed, the surplus would have been £0.2 billion lower.

CALCULATION OF GROUP SOLVENCY

The Solvency II regulations set out two methods for calculating Group solvency, 'Method 1' (being the default accounting based consolidation method) and 'Method 2' (the deduction and aggregation method).

Under Method 2, the solo Own Funds are aggregated rather than consolidated on a line by line basis. The SCR is also aggregated, with no allowance for diversification. Method 2 is used for all entities within the Standard Life Assurance businesses acquired in 2018 and Method 1 is used for all other entities of the Group (including the ReAssure entities acquired in 2020). The Group has approval to use a combination of Methods 1 and 2 for calculating its Group solvency results. Should the Group's application for a Harmonised Internal Model be approved by the PRA, it is expected that the use of Method 2 would be discontinued and all entities within the Group will be consolidated under Method 1.

COMPOSITION OF OWN FUNDS

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

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

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

	30 June 2021 Estimated £bn	31 December 2020 £bn
Tier 1 – Unrestricted	**10.8**	11.7
Tier 1 – Restricted	**1.1**	1.1
Tier 2	**2.9**	3.2
Tier 3	**0.8**	0.8
Total Own Funds	**15.6**	16.8

PGH plc's unrestricted Tier 1 capital accounts for 69% (31 December 2020: 70%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

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

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

Tier 3 items include the Tier 3 subordinated notes of £0.7 billion (31 December 2020: £0.7 billion) and the deferred tax asset of £0.1 billion (31 December 2020: £0.1 billion).

BREAKDOWN OF SCR

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

	30 June 2021 Estimated			31 December 2020		
	Phoenix Internal Model %	Standard Life Internal Model %	ReAssure and SLIDAC Standard Formula %	Phoenix Internal Model %	Standard Life Internal Model %	ReAssure and SLIDAC Standard Formula %
Longevity	**26**	**19**	**20**	27	18	21
Credit	**22**	**12**	**24**	23	12	24
Persistency	**12**	**29**	**21**	12	25	20
Interest rates	**6**	**6**	**8**	7	6	10
Operational	**4**	**9**	**3**	4	8	4
Swap spreads	**3**	**1**	**–**	3	1	–
Property	**9**	**1**	**1**	10	1	–
Other market risks	**7**	**14**	**12**	3	16	10
Other non-market risks	**11**	**9**	**11**	11	13	11
Total pre-diversified SCR	**100**	**100**	**100**	100	100	100

MINIMUM CAPITAL REQUIREMENTS

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

The MCR is calculated according to a formula prescribed by the Solvency II regulations and is subject to a floor of 25% of the SCR or €3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk.

The MGSCR represents the sum of the underlying insurance companies' MCRs in respect of the Method 1 part of the Group.

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

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

PGH plc's MGSCR at 30 June 2021 is £1.7 billion (31 December 2020: £1.9 billion).

PGH plc's Method 1 Eligible Own Funds to cover MGSCR is £7.4 billion (31 December 2020: £8.3 billion) leaving an excess of Eligible Own Funds over MGSCR of £5.7 billion (31 December 2020: £6.4 billion), which translates to an MGSCR coverage ratio of 437% (31 December 2020: 431%).

The MCR for the Method 2 part of the Group is £1.3 billion (31 December 2020: £1.4 billion), with Eligible Own Funds of £4.7 billion (31 December 2020: £4.9 billion), leaving an excess of Eligible Own Funds over MCR of £3.4 billion (31 December 2020: £3.5 billion), which translates to an MCR coverage ratio of 374% (31 December 2020: 359%).

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

A list of the APMs used in our results as well as their definitions, why they are used and, if applicable, how they can be reconciled to the nearest equivalent GAAP measure is provided below. Further discussion of these measures can be found in the business review from page 5.

APM	Definition	Why this measure is used	Reconciliation to financial statements
Assets under administration	The Group's Assets under Administration ('AUA') represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets. It includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 63.
Financial leverage ratio	Financial leverage is calculated by Phoenix (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, the unallocated surplus and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's IFRS consolidated statement of financial position on pages 29 and 30 and the analysis of borrowings note on page 50.
Incremental long-term cash generation	Incremental long-term cash generation represents the operating companies' cash generation that is expected to arise in future years as a result of new business transacted in the current period within our UK Open and Europe segments. It excludes any costs associated with the acquisition of the new business.	This measure provides an indication of the Group's performance in delivering new business growth to offset the impact of run-off of the Group's Heritage business and to bring sustainability to future cash generation.	Incremental long-term cash generation is not directly reconcilable to the financial statements as it relates to cash generation expected to arise in the future.
Life Company Free Surplus	The Solvency II surplus of the Life Companies that is in excess of their Board approved capital management policies.	This figure provides a view of the level of surplus capital in the Life Companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section on page 11 for further analysis of the solvency positions of the Life Companies.
Long-term Free Cash ('LTFC')	Long-term Free Cash ('LTFC') is comprised of long-term cash to emerge from in-force business, plus holding company cash, less an allowance for costs associated with in-flight mergers and acquisitions and the related transition activities, and a deduction for shareholder debt outstanding.	LTFC provides a measure of the Group's total long-term cash available for operating costs, interest, growth and shareholder returns. Increases in LTFC will be driven by sources of long-term cash i.e. new business and over-delivery of management actions. Decreases in LTFC will reflects the uses of cash at holding company level, including expenses, interest, investment in BPA and dividends.	The metric is not directly reconcilable to the financial statements as it includes a significant component relating to cash that is expected to emerge in the future. Holding company cash included within LTFC is consistent with the holding company cash and cash equivalents as disclosed in the cash section of the business review. Shareholder debt outstanding reflects the face value of the shareholder borrowings disclosed on page 50.
New business contribution	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure provides an assessment of the day one value arising on the writing of new business in the UK Open and Europe segments, and is stated after applicable taxation and acquisition costs.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement. Further analysis is provided on page 8.

APM	Definition	Why this measure is used	Reconciliation to financial statements
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of consolidated cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, Group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS statement of consolidated cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on pages 5 to 6, and a breakdown of the Group's cash position by type of entity is provided in the additional life company asset disclosures section on page 62.
Operating profit	Operating profit is a financial performance measure based on expected long-term investment returns. It is stated before tax and non-operating items including amortisation and impairments of intangibles, finance costs attributable to owners and other non-operating items which in the Director's view should be excluded by their nature or incidence to enable a full understanding of financial performance. Further details of the components of this measure and the assumptions inherent in the calculation of the long-term investment return are included in note 3 to the condensed consolidated interim financial statements.	This measure provides a more representative view of the Group's performance than the IFRS result after tax as it provides long-term performance information unaffected by short-term economic volatility and one-off items, and is stated net of policyholder finance charges and tax. It helps give stakeholders a better understanding of the underlying performance of the Group by identifying and analysing non-operating items.	A reconciliation of operating profit to the IFRS result before tax attributable to owners is included in the business review on page 12.
Shareholder Capital Coverage Ratio	Represents total Eligible Own Funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR.	The unsupported with-profit funds and Group pension funds do not contribute to the Group Solvency II surplus. However, the inclusion of related Own Funds and SCR amounts dampens the implied Solvency II capital ratio. The Group therefore focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group.	Further details of the Shareholder Capital Coverage Ratio and its calculation are included in the business review on page 10.

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') was held on 14 May 2021 at 10.00am (BST).

The voting results for our 2021 AGM, including proxy votes and votes withheld are available on our website at www.thephoenixgroup.com

SHAREHOLDER SERVICES

Managing your shareholding

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

Registrar details

Computershare Investor Services PLC
The Pavilions,
Bridgwater Road,
Bristol,
BS99 6ZZ
Shareholder helpline number +44 (0) 370 702 0181 Fax number +44 (0) 370 703 6116
www.investorcentre.co.uk/contactus

SHARE PRICE

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

GROUP FINANCIAL CALENDAR FOR 2021

2021 interim dividend

Ex-dividend date 19 August 2021
Record date 20 August 2021
Interim 2020 dividend payment date 3 September 2021

Additional information

FORWARD-LOOKING STATEMENTS

The 2021 Interim Report contains, and the Group may make other statements (verbal or otherwise) containing, forward looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

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

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

- domestic and global economic, social, environmental and business conditions;
- asset prices;
- market-related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, initiatives related to the financial crisis, the COVID-19 pandemic, climate change and the effect of the UK's version of the 'Solvency II' requirements on the Group's capital maintenance requirements;
- the political, legal, social and economic effects of the COVID-19 pandemic and the UK's exit from the European Union;
- the impact of inflation and deflation;
- market competition;
- changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates);
- the timing, impact and other uncertainties of proposed or future acquisitions, disposals or combinations within relevant industries;
- risks associated with arrangements with third parties;
- inability of reinsurers to meet obligations or unavailability of reinsurance coverage; and
- the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within the 2021 Interim Report. No representation is made that any of these statements will come to pass or that any future results will be achieved. As a result, you are cautioned not to place undue reliance on such forward-looking statements contained in this 2021 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements or data contained within the 2021 Interim Report or any other forward-looking statements or data it may make or publish.

The 2021 Interim Report has been prepared for the members of the Company and no one else. The Company, its Directors or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Nothing in the 2021 Interim Report is or should be construed as a profit forecast or estimate.

ONLINE RESOURCES

REDUCING OUR ENVIRONMENTAL IMPACT

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

Go online
www.thephoenixgroup.com

INVESTOR RELATIONS

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

Go online
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NEWS AND UPDATES

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

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

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