Interim Report 2018

PHOENIX IS THE LARGEST UK CONSOLIDATOR OF CLOSED LIFE ASSURANCE FUNDS.

Financial highlights

OPERATING COMPANIES' CASH GENERATION £m

£349m APM

HY17: £360m

OPERATING PROFIT £m

£216m APM

HY17: £215m

SOLVENCY II SURPLUS £bn (estimated)

£2.3bn

FY17: £1.8bn

SHAREHOLDER CAPITAL COVERAGE RATIO % (estimated)

180% APM

FY17: 164%

INTERIM DIVIDEND PER SHARE p

22.6p

2017 Final Dividend per share: 22.6p[1]

IFRS LOSS AFTER TAX £m

£(24)m

HY17: £(96)m

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Operational highlights

Half year ended 30 June 2018

- Acquisition of Standard Life Assurance and Strategic Partnership with Standard Life Aberdeen announced in February and on track to complete end August.
- AXA Wealth and Abbey Life integrations completed.
- First BPA transaction with the Marks and Spencer Pension Scheme completed in May.
- Fee caps on unitised non-workplace pensions introduced.

1 Rebased to take into account the bonus element of the rights issue completed in July 2018.

Note: All amounts marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' note on page 52 for further details of these measures.

Group Chief Executive Officer's Report

"Phoenix has a new vision – to be Europe's Leading Life Consolidator"

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

ENHANCED GROWTH PROSPECTS

Phoenix had a very successful first half of the year, announcing the transformational £2.9 billion acquisition of Standard Life Assurance and Strategic Partnership with Standard Life Aberdeen and the completion of our first Bulk Purchase Annuity ('BPA') transaction.

We also completed the integration of the AXA Wealth and Abbey Life businesses ahead of plan and targets, delivering cost synergy benefits of £27 million per annum and cumulative cash generation of £768 million.

Phoenix has delivered strong financial results, generating £349 million of cash from Phoenix Life and therefore expects to exceed the upper end of the 2017 to 2018 cash generation target range of £1.0 billion to £1.2 billion.

The Board has declared an interim dividend for 2018 of 22.6p per share, consistent with the final 2017 dividend per share rebased to reflect the recent rights issue.

ACQUISITION OF STANDARD LIFE ASSURANCE AND STRATEGIC PARTNERSHIP WITH STANDARD LIFE ABERDEEN

The acquisition of Standard Life Assurance represents a pivotal moment in the Group's history. The enlarged Group will have £240 billion of assets under management and 10.4 million policyholders. This greater scale and alignment with Phoenix's existing product mix strengthens the Group's capacity to generate shareholder value through the delivery of management actions and future accretive acquisitions.

The transaction is evidence of the industry bifurcating and splitting into 'capital heavy' insurance specialists who will continue to underwrite and administer insurance products and 'capital light' firms who will concentrate on sales and distribution. Phoenix's vision is to be Europe's Leading Life Consolidator in this bifurcation which we estimate has a market size of £540 billion across the UK, Germany and Ireland.

We expect to generate a total of £5.5 billion of additional aggregate cash flows from the acquisition, of which £1.0 billion is expected to be generated between 2018 and 2022 and £4.5 billion from 2023 onwards.

The long-term nature of these cash flows enhances the sustainability of our dividend and allows us to increase our 2018 final dividend to an annualised level of £338 million. Whilst we had expected this to equate to a 3.0% uplift in dividend per share, the actual pricing of our rights means that the uplift in our dividend per share is expected to be 3.5%.

The acquisition also significantly enhances the new business capabilities within the Group to generate organic growth which will dampen the run-off of our in-force business. The Strategic Partnership with Standard Life Aberdeen will bring new business in the form of workplace pensions, SIPP and drawdown products which will be managed alongside our existing new business streams and include vesting annuities and protection products sold by SunLife, a distribution company within the Group.

As a result, Phoenix will no longer describe itself as purely a 'closed' business, but as a consolidator of both open and heritage life businesses with a new business capability.

Shareholder approval of the transaction was received at our EGM in June when 99.98% of voting shareholders gave their support to the transaction.

Our acquisition funding is also now in place following the £950 million rights issue completed in July with a take up rate of 96.25% and the £500 million Restricted Tier 1 bond issuance in April. I would like to take this opportunity to thank our investors for their overwhelming support for this acquisition.

The PRA and FCA have now approved the transaction and we expect to receive approval from the CBI by 30 August. We anticipate completion will follow on 31 August. We have been working extensively with our future colleagues at Standard Life to prepare for 'Day 1' and ensure that we will be ready to welcome the 3,500 transferring staff based in five locations to the Phoenix Group.

We are building up the Strategic Partnership between Phoenix and Standard Life Aberdeen. The partnership covers two key areas: firstly, Standard Life Aberdeen will continue to manage the majority of Phoenix's assets and secondly, Phoenix will underwrite workplace pensions, SIPP and drawdown products which Standard Life Aberdeen will continue to market under its own brand.

Group Chief Executive Officer's Report
continued

Phoenix will be forever changed by this transaction and I have announced a number of new appointments to my executive team to enable us to run the enlarged group with appropriate focus from completion.

Susan McInness has been appointed as the CEO of Standard Life Assurance and James McConville will take on new responsibilities as 'Group Director, Scotland' whilst continuing as Group Finance Director. Both appointments will be effective on completion of the acquisition.

Jonathan Pears, currently Chief Risk Officer at Standard Life, will replace Susan as Phoenix Group Chief Risk Officer on completion of the acquisition and John McGuigan, currently Managing Director, Customer Operations at Standard Life, will join the Phoenix Executive Committee as Group Head of Customer; a new Group function covering Standard Life Assurance and Phoenix Life.

BPA

In parallel, Phoenix has progressed its BPA strategy announcing a £470 million BPA transaction with the Marks and Spencer Pension Scheme in May. The transaction has been structured under an umbrella contract to facilitate potential future transactions between Phoenix and the scheme, which will allow the parties to move quickly to take advantage of future market opportunities that may present themselves. This was Phoenix's first external BPA transaction having announced its intention to enter this market in 2017.

BOARD CHANGES

The Board would like to take this opportunity to express its gratitude to Henry Staunton who announced his intention not to seek re-appointment as our Chairman back in May. Phoenix has benefited from his significant expertise and judgement during a time of immense growth. Henry leaves Phoenix stronger and more confident than it has ever been and the Board thanks him for his leadership and guidance.

The Board welcomes Nicholas Lyons who, subject to regulatory approval, will replace Henry as Chairman from 1 September 2018. Nicholas brings a wealth of experience from the life insurance sector and the Board looks forward to working with him in the future.

The Board is also pleased to announce the appointment of two new Non-Executive Directors, Barry O'Dwyer and Campbell Fleming who will join the Board on completion of the Standard Life Assurance acquisition. Barry and Campbell bring substantial experience and executive skills complementary to those of our existing Directors and very relevant to our evolving strategy. We look forward to working with them as we realise our role as Europe's Leading Life Consolidator.

OUTLOOK

The acquisition of Standard Life Assurance is transformational for Phoenix and will take us from being a closed book business, to one that has additional new business capabilities. We are witnessing the bifurcation of our industry and Phoenix is well placed to be the leading life consolidator in Europe during this process. Contemporaneously, the bulk annuity market constitutes a potential complementary source of inorganic growth and the Group intends to continue to compete selectively across both markets on accretive transactions to generate incremental value.

Phoenix has a number of strengths which position the Group at the forefront of these markets:

Scale: Scale as the largest consolidator of heritage life insurance books in Europe.

Security: Phoenix has a strong balance sheet and generates long term cash flows.

Specialism: Our specialist operating model enables us to efficiently manage and integrate heritage books.

Service: Providing a high quality service with continuity to customers and their intermediaries is critical to our strategy.

Skills: Phoenix employs a uniquely talented and experienced team and we will continue to invest in this expertise.

Significant growth: Organic growth through new business and a wealth of acquisition opportunities across Europe.

We are confident about our future as we continue to build an enduring institution.

CONCLUSION

I would like to thank all of my colleagues, but particularly those in the Life Company and Corporate Office, for their hard work during the first half of the year in successfully delivering the Group's strategy.

I would also like to welcome our new colleagues who will be transferring to Phoenix from Standard Life. I look forward to working with you as Phoenix seeks further opportunities to grow and realise its vision.

The Standard Life Assurance acquisition is a stepping stone on our consolidation journey, but it is not the final destination and we remain focused on doing more transactions.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

22 August 2018

"The Group is expected to exceed its 2017 to 2018 cash generation target"

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

BUSINESS REVIEW

2017 – 2018 CASH GENERATION TARGET DELIVERED

The Group has delivered £349 million of cash generation taking cash generation for 2017 to 2018 to £1,002 million. We now expect to exceed our two year cash generation target for 2017 to 2018 of £1.0 to £1.2 billion.

The Group currently has a cash generation target of £2.5 billion between 2018 to 2022.

CAPITAL STABILITY

The PGH Solvency II surplus has increased to £2.3 billion (FY17: £1.8 billion) in the period.

The increase has been driven by management actions and the issue of the £500 million restricted Tier 1 bond in April in anticipation of the completion of the Standard Life Assurance acquisition.

Our strong financial position has been recognised by Fitch who confirmed their A+ rating for the insurance subsidiaries of the Group and continue to have us on a 'stable' outlook. Fitch has also assigned Standard Life Assurance Limited an expected Insurer Financial Strength rating of A+(EXP).

GROUP OPERATING PROFIT REMAINS STRONG. IFRS AFTER TAX RESULT CONTINUES TO BE IMPACTED BY OUR HEDGING STRATEGY

Group operating profit has remained in line with the prior period at £216 million (HY17: £215 million).

The IFRS loss after tax of £24 million (HY17: £96 million) was impacted by losses on derivative positions held to hedge the Group's exposure to additional equity risk as a result of the acquisition of Standard Life Assurance.

Cash Generation

£349m APM

Operating companies' cash generation

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

Please see the Alternative Performance Measures ('APM') note on page 52 for further details of this measure.

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

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

CASH RECEIPTS

Cash remitted by the operating companies during the period was £349 million (HY17: £360 million).

Note:
All amounts in the Business Review section marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' note on page 52 for further details of these measures.

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RECURRING CASH OUTFLOWS

The operating expenses of £19 million (HY17: £17 million) principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Pension scheme contributions of £23 million (HY17: £38 million) are made on a monthly basis and comprise £20 million for the Pearl Group Scheme and £3 million for the Abbey Life Scheme. The decrease compared to prior period reflects the payment in HY 17 of £10 million of contributions to the Pearl Group Scheme in respect of the final quarter of 2016 as part of the move from annual to monthly funding. In addition, no further contributions are required to be paid into the PGL Staff Pension Scheme under the existing funding agreement (HY17: £8 million).

Debt interest of £10 million (HY17: £13 million) represents a semi-annual interest coupon paid on the US$500 million (£385 million) Tier 2 bond which was issued in 2017. Cash interest payments are expected to be paid on all of Phoenix Group Holdings' outstanding debt instruments in the second half of the year.

NON-RECURRING CASH OUTFLOWS

Non-recurring cash outflows of £188 million (HY17: £20 million) include £22 million of option premiums and £49 million of collateral posted in respect of derivative instruments entered into to hedge the Group's exposure to equity risk arising from the Group's acquisition of Standard Life Assurance. The remainder of the balance includes a further £21 million of collateral posted on other Group hedging positions, £62 million of funding provided to the life companies to support bulk purchase annuity new business (based on a conservative asset mix) and other corporate costs, including acquisition and integration costs.

DEBT REPAYMENTS AND SHAREHOLDER DIVIDEND

External debt repayments were £nil in the period. The HY17 comparative of £503 million comprised £300 million part-settlement of the revolving credit facility and repayment of £178 million of the £300 million senior bonds which were redeemed at a premium of £25 million.

The shareholder dividend of £99 million represents the payment of the 2017 final dividend in May.

DEBT ISSUANCE (NET OF FEES)

The £494 million debt issuance comprises the proceeds of the restricted Tier 1 bond issuance of £500 million completed in April, net of associated fees.

TARGET CASH FLOWS

The Group has previously announced a five-year cumulative target cash flow for 2016 to 2020 of £2.8 billion, of which £1.0 billion to £1.2 billion is expected to be achieved in 2017 to 2018. With cash generation of £653 million for the full year 2017 and £349 million for the half year ended 30 June 2018, the Group expects to exceed the top end of our £1.0 to £1.2 billion range for 2017 to 2018.

The Group currently has a cash flow target of £2.5 billion in respect of the years 2018 to 2022 and the resilience of the target is demonstrated by the illustrative stress testing in the table below.

EXPECTED CASH FLOWS AFTER 2022

The successful bulk purchase annuity transaction completed in April increased the long-term cash generation by £0.2 billion and cash generation post 2022 for the existing Group is now expected to be £4.0 billion. This assumes no management actions after 2022 and does not include any cash generation expected from Standard Life Assurance.

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m
Cash and cash equivalents at 1 January	**535**	570
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**349**	360
Total cash receipts[1]	**349**	360
Uses of cash:		
Operating expenses	**(19)**	(17)
Pension scheme contributions	**(23)**	(38)
Debt interest	**(10)**	(13)
Total recurring outflows	**(52)**	(68)
Non-recurring outflows	**(188)**	(20)
Uses of cash before debt repayments and shareholder dividend	**(240)**	(88)
Debt repayments	**–**	(503)
Shareholder dividend	**(99)**	(94)
Total uses of cash	**(339)**	(685)
Debt issuance (net of fees)	**494**	446
Cash and cash equivalents at 30 June	**1,039**	691

1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £14 million (HY17: £11 million).

Illustrative stress testing[1]	1 January 2018 to 31 December 2022 £bn
Base case five-year target	**2.5**
Following a 20% fall in equity markets	**2.5**
Following a 15% fall in property values	**2.4**
Following a 60bps interest rates rise[2]	**2.6**
Following a 80bps interest rates fall[2]	**2.4**
Following credit spread widening[3]	**2.4**
Following 6% decrease in annuitant mortality rates[4]	**2.2**
Following a 10% increase in assurance mortality rates	**2.4**
Following a 10% change in lapse rates[5]	**2.4**

1 Assumes stress occurs on 1 July 2018.
2 Assumes recalculation of Transitional Measures on Technical Provisions (subject to PRA approval).
3 Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.
4 Equivalent of six months increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

Capital Management

£2.3bn

PGH Solvency II surplus (estimated)

180% APM

PGH Shareholder Capital Coverage Ratio (estimated)

PGH SOLVENCY II SURPLUS OVERVIEW

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'). PGH 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 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'.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess capital requirements. Following the acquisitions in 2016, the Group obtained the PRA's approval to incorporate the acquired AXA Wealth and Abbey Life businesses within the scope of the Group's Internal Model in March 2017 and March 2018 respectively.

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and the PGL Pension Scheme. In the calculation of the Solvency II surplus, the SCR of the with-profit funds and the PGL Pension Scheme is included, but the related Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and the PGL Pension Scheme, 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.

As part of the ongoing simplification of the Group structure, Phoenix intends to put in place a new UK-registered holding company following the completion of the Standard Life Assurance acquisition. The new company will be the ultimate parent company and the highest EEA insurance Group holding company. When complete, the Solvency II capital assessment and Group supervision will be performed at this level.

CHANGE IN PGH SOLVENCY II SURPLUS (ESTIMATED)

The PGH Solvency II surplus has increased to £2.3 billion (FY17: £1.8 billion estimated) in the period.

The increase includes surplus generation and reduction in capital requirements of £0.1 billion.

Management actions undertaken, including further investment in illiquid assets within annuity portfolios, reductions in investment expenses and anticipated cost savings associated with process improvements and continued investment in digitalisation of the customer journey, increased the surplus by £0.4 billion.

The Tier 1 bond issuance completed in April increased the surplus by £0.5 billion ahead of the completion of the acquisition of Standard Life Assurance.

The adverse impact of economic and other variances reduced the surplus by £0.3 billion. This includes losses and capital requirements of £137 million arising on derivative instruments entered into on announcement of the Standard Life Assurance acquisition to hedge shareholder exposures to equity risk from that business. Equity market gains in the subsequent period have triggered losses on these instruments. The corresponding increase in the value of future profits arising in the Standard Life Assurance Own Funds is not recognised in the Group solvency calculation as at HY18, pending completion of the acquisition. The figure also includes a provision of £68 million in respect of a commitment to reduce ongoing and exit charges for unitised non-workplace pensions, the day 1 solvency strain arising from the writing of bulk purchase annuity new business, together with acquisition related project costs.

Financing costs, pension contributions and the dividend payments (including the expected payment of the £163 million interim dividend on 1 October), amount to £0.2 billion and reduce the surplus in the period.

SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

The Group 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. 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 PGL Pension Scheme.

Please see the Alternative Performance Measures note on page 52 for further details of this measure.

Unsupported with-profit funds and the PGL Pension Scheme consist of £2.7 billion of Own Funds and £1.8 billion of SCR. Of the £2.7 billion of Own Funds, £2.1 billion consists of estate within the unsupported with-profit funds and £0.6 billion of Own Funds within the PGL Pension Scheme. As noted previously, surpluses in these funds do not contribute to the PGH Solvency II surplus.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the estimated Solvency II Shareholder Capital Coverage ratio is 180% as at 30 June 2018 (FY17: 164% estimated).

The estimated PGH Solvency II surplus position at 30 June 2018 is set out in the table below:

	Estimated position as at 30 June 2018 £bn	Estimated position at 31 December 2017 £bn
Own Funds[1]	**7.0**	6.6
SCR[2]	**(4.7)**	(4.8)
Surplus[3]	**2.3**	1.8

1 Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS 19 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 is exposed.

3 The surplus equates to an estimated regulatory coverage ratio of 149% as at 30 June 2018. (FY17: 139% estimated).

Business Review
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PHOENIX LIFE FREE SURPLUS (ESTIMATED)

Phoenix Life 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 2018, the Phoenix Life Free Surplus is £0.8 billion (FY17: £0.7 billion). The table below analyses the movement during the period:

	Estimated position as at 30 June 2018 £bn
Opening Free Surplus	**0.7**
Surplus generation and reduction in capital requirements	0.1
Management actions	0.4
Economic and other variances	(0.1)
Free Surplus before cash remittances	**1.1**
Cash remittances to holding companies	(0.3)
Closing Free Surplus	**0.8**

SENSITIVITY AND SCENARIO ANALYSIS

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

In relation to the acquisition of Standard Life Assurance, the Group has undertaken additional hedging activity in 2018 to protect the economic value of the acquired business from adverse equity and currency movements. Upon completion, the Group's hedging strategy will be applied to the business acquired.

The sensitivities below have not been amended to reflect exposure to that additional hedging programme in the period prior to completion of the transaction. The sensitivities represent the standalone position for the Phoenix Group based on hedging in place as at 30 June 2018.

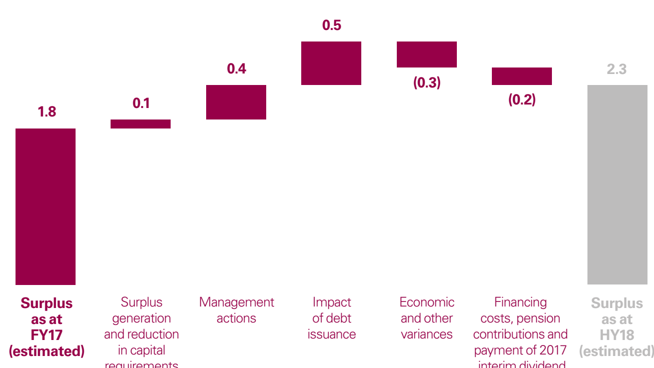
Furthermore, we note that on 2 July 2018, the PRA issued Consultation Paper 13/18 which focuses on whether firms are making appropriate allowance for non-standard risks arising when Equity Release Mortgages ('ERM') are included within their Solvency II Matching Adjustment portfolios. The Consultation proposes an approach and calibration for assessing the property risk associated with the no negative equity guarantee feature of ERM assets when determining an entity's Solvency II Technical Provisions.

The Consultation Paper, if published as a Supervisory Statement in substantively its current form, could potentially have adverse impacts on the solvency position of insurers. For Phoenix, the potential impact is driven by the requirement for the benefit from transitional measures to be tested against a risk neutral valuation. An initial assessment of the impact of the proposals has estimated that the PGH Solvency II surplus could reduce by circa £0.2 billion. Any strain of this nature would be expected to unwind over time as the transitional benefits run-off. Therefore, were the proposals to be confirmed, we would not expect any impact on our stated cash generation targets. The PRA are accepting feedback on the Consultation Paper until 30 September 2018 with a proposed implementation date of 31 December 2018. No impacts of the Consultation Paper have been reflected in the Group's solvency position reported as at 30 June 2018.

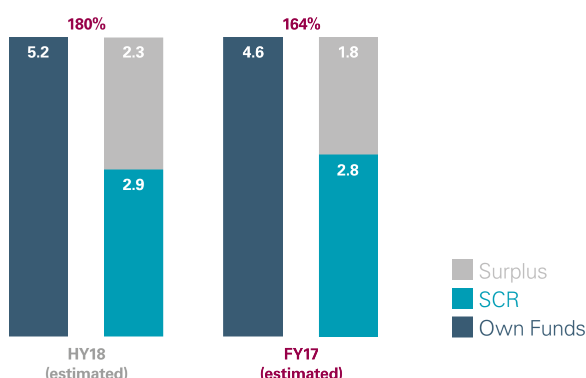
Illustrative stress testing[1]	Estimated PGH Solvency II surplus £bn
Base: 30 June 2018	2.3
Following a 20% fall in equity markets	2.3
Following a 15% fall in property values	2.2
Following a 60bps interest rates rise[2]	2.3
Following a 80bps interest rates fall[2]	2.3
Following credit spread widening[3]	2.2
Following 6% decrease in annuitant mortality rates[4]	2.0
Following 10% increase in assurance mortality rates	2.2
Following a 10% change in lapse rates[5]	2.2

1 Assumes stress occurs on 1 July 2018.
2 Assumes recalculation of Transitional Measures on Technical Provisions (subject to PRA approval).
3 Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.
4 Equivalent of six months increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

CHANGE IN PGH SOLVENCY II SURPLUS £bn



SHAREHOLDER CAPITAL COVERAGE RATIO £bn



IFRS Results

£216m APM

Operating profit

£(24)m

IFRS loss after tax

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 note on page 52 for further details of this measure.

The Group has generated an operating profit of £216 million (HY17: £215 million). The net positive impact of experience variances during the first half of 2018 has been largely offset by the lower impact of management actions within operating profit compared to the prior period and the net positive impact of actuarial assumptions recognised in HY17.

IFRS LOSS AFTER TAX

The IFRS loss after tax attributable to owners is £(24) million (HY17: £(96) million). The loss principally reflects adverse economic variances arising on derivative positions held to hedge the Group's exposure to equity risk arising from the acquisition of Standard Life Assurance.

PHOENIX LIFE OPERATING PROFIT

Operating profit for Phoenix Life 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 interim 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. Phoenix Life operating profit is net of policyholder finance charges and policyholder tax.

The with-profit operating profit of £40 million (HY17: £39 million) represents the shareholders' one-ninth share of the policyholder bonuses, and is in line with the comparative period.

The with-profit funds where internal capital support has been provided generated an operating loss of £6 million (HY17: £76 million loss) reflecting the net adverse impact of updating actuarial assumptions. The larger loss in the prior period was due to the relatively higher impact of strengthening actuarial assumptions related to persistency of products with valuable guarantees and the associated assumptions in relation to late retirements.

The non-profit and unit-linked funds operating profit decreased to £185 million (HY17: £250 million). The decrease reflects the relative lower positive impact of updating actuarial assumptions of £27 million (HY17: £142 million), where the prior period benefited from updates made to longevity base and improvement assumptions. This impact has been partially offset by positive experience variances recognised in the period and benefits from actuarial modelling enhancements delivered during the period.

The long-term return on owners' funds of £1 million (HY17: £2 million) reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities. The investment policy for managing these assets remains prudent.

Operating profit	**Half year ended 30 June 2018 £m**	Half year ended 30 June 2017 £m
Phoenix Life	**228**	226
Group costs	**(12)**	(11)
Operating profit	**216**	215
Investment return variances and economic assumption changes on long-term business	**27**	(56)
Variance on owners' funds	**(136)**	(77)
Amortisation of acquired in-force business, customer relationships and other intangibles	**(54)**	(50)
Other non-operating items	**(37)**	(82)
Profit/(Loss) before finance costs attributable to owners	**16**	(50)
Finance costs attributable to owners	**(54)**	(51)
Loss before the tax attributable to owners:	**(38)**	(101)
Tax credit attributable to owners	**14**	5
Loss for the period attributable to owners	**(24)**	(96)

Phoenix Life operating profit	**Half year ended 30 June 2018 £m**	Half year ended 30 June 2017 £m
With-profit	**40**	39
With-profit where internal capital support provided	**(6)**	(76)
Non-profit and unit-linked	**185**	250
Long-term return on owners' funds	**1**	2
Management services	**8**	11
Phoenix Life operating profit before tax	**228**	226

Business Review
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The operating profit for management services of £8 million (HY17: £11 million) 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. The decrease compared to the prior period reflects the impact of life company run-off.

GROUP COSTS

Group costs in the period were £12 million (HY17: £11 million), in line with the prior period. They mainly comprise project recharges from the service companies offset by returns on the scheme surplus of the Group staff pension schemes.

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

The net positive investment return variances and economic assumption changes on long-term business of £ 27 million (HY17: £56 million adverse) primarily arise due to the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets. This has been partially offset by the adverse impact of rises in yields and equity market gains during the period. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

VARIANCE ON OWNERS' FUNDS

The adverse variance on owners' funds of £136 million (HY17: £77 million negative) includes the impact of fair value losses on derivatives held in the shareholder funds of the life companies to protect the Group's regulatory capital position as a result of an increase in yields in the period together with swap decay costs. It also reflects the impact of derivative instruments entered into on announcement of the Standard Life Assurance acquisition in order to hedge shareholder exposures to equity risk from that business. Following equity market gains in the period, unrealised losses of £83 million have been recognised on these instruments, together with option premiums of £22 million.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the operating companies in 2009. Following the acquisition of the AXA Wealth and Abbey Life businesses in 2016, a further £0.2 billion of acquired in-force business and other intangibles have been recognised in the Group's balance sheet.

The acquired in-force business is being amortised in line with the run-off of the life companies. Amortisation of acquired in-force business during the period totalled £46 million (HY17: £42 million). Amortisation of other intangible assets totalled £8 million in the period (HY17: £8 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £37 million negative (HY17: £82 million negative) includes an actuarial provision for £68 million in respect of a commitment to reduce ongoing and exit charges for unitised non-workplace pensions and acquisition related costs of £17 million in respect of the Standard Life transaction. This is partially offset by a £52 million net benefit reflecting anticipated cost savings associated with process improvements and continued investment in the digitalisation of the customer journey and net other one-off items totalling £4 million.

The prior period result included a premium of £25 million paid on redemption of £178 million principal of the senior unsecured bond, costs of £18 million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses, a provision of £28 million in respect of a commitment to the reduction of ongoing charges for workplace pension products, an £8 million increase in the provision for costs of claims relating to historic creditor insurance underwritten by a subsidiary of the Group, PA(GI) Limited; and net other one-off items totalling a cost of £3 million, including corporate project costs.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m
Bank finance costs	**1**	8
Other finance costs	**53**	43
Finance costs attributable to owners	**54**	51

Finance costs have increased by £3 million, comprising a £7 million decrease in bank finance costs driven by the repayment of bank debt; and a £10 million increase in other finance costs driven by hybrid debt issuances during 2017.

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. In the first half of 2018, the Tax Strategy was refreshed 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.

All of the Group's insurance operations are based in the UK and are liable to tax in accordance with applicable UK legislation. The Group derives a de-minimis level of income from non-UK sources. Phoenix Group Holdings was a Jersey resident holding company until 31 January 2018 when it became tax resident in the UK.

The Group tax credit for the period attributable to owners is £14 million (HY17: £5 million tax credit) based on a loss (after policyholder tax) of £38 million (HY17: £101 million loss). The significant tax adjustments to the owners' profit before tax are primarily due to the prior year credit for shareholders £(4) million and profits taxed at a rate other than the statutory rate of £(4) million.

Risk Management

"The Group's Risk Management Framework has supported the acquisition of Standard Life Assurance and will evolve to manage the risks and opportunities that the enlarged group will face."

SUSAN McINNES
GROUP CHIEF RISK OFFICER

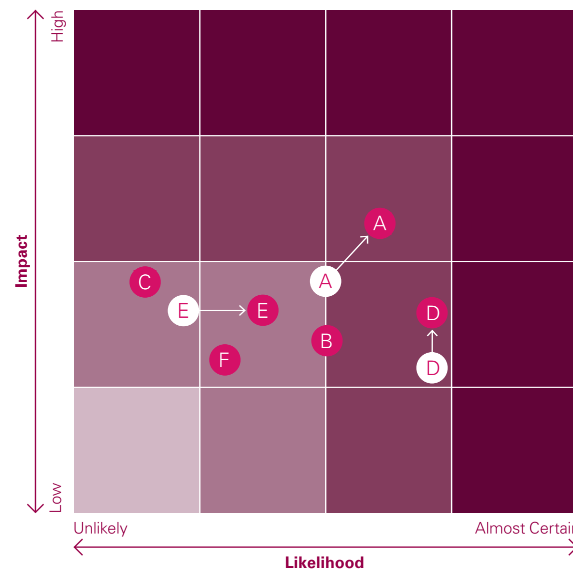
RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's top principal risks and uncertainties are detailed in the table below together with their potential impact, mitigating actions which are in place and the change in the risk from last year. As economic changes occur and the industry and regulatory environment evolves, the Group will continue to monitor the potential impact of these risks and take appropriate actions.

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

PRINCIPAL RISKS



RISK

- A Market Volatility
- B Actuarial Assumptions
- C Counterparty Exposure
- D Regulatory and Legislative Change
- E Acquisition Integration
- F Outsourcer Market

Movement since YE 2017

Risk Management
continued

Risk	Impact	Mitigation	Strategic priorities	Change from last year
In times of severe market turbulence, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or it may suffer a loss in value. MARKET	The emerging cash flows of the Group may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's capital position. Since the introduction of Solvency II and a swaps-based discount rate, the Group is more sensitive to movements in swap yields.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow and liquidity forecasting, and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against adverse customer and shareholder outcomes from certain market movements such as equities and interest rates. The Group also maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows. The Group's excess capital position continues to be closely monitored and managed, particularly in the low interest environment and any potential impact on financial markets as a result of Brexit.	1 2 3	***RISK HEIGHTENED*** Equity markets have been volatile over the first half of 2018. A further increase in the UK base rate had been anticipated but was deferred to H2 after weaker than expected economic data. The Group has hedged the majority of market risk exposures associated with the Standard Life Assurance acquisition but some price exposure remains until completion. The Group continues to monitor and review existing market risk exposures in light of political developments, particularly those that may arise from the terms and timing of the UK's exit from the EU.
Adverse changes in experience versus actuarial assumptions. INSURANCE	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 their benefits will be paid for longer. The amount of additional capital required to meet those 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 continues to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite.	2	***NO CHANGE*** The continuing trend of reductions in future mortality improvements saw the Group amending assumptions accordingly in 2017. Policyholder persistency rates and the take-up of guarantees have been affected by the low interest rate environment and assumptions strengthened where indicated by recent experience. The Group completed its first bulk annuity transaction with a £470 million book acquired in the first half of the year and all the longevity risk was reinsured.
Significant counterparty failure. CREDIT	The assets held to meet obligations to policyholders include debt securities. Phoenix Life is exposed to deterioration in the actual or perceived creditworthiness or default of issuers of these securities. This risk is reflected in the higher expected return, or spread, over less risky assets. An increase in credit spreads on debt securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could adversely impact the value of the Group's assets. The Group is also exposed to trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements.	The Group regularly monitors its counterparty exposure and has specific limits relating to individual exposures, counterparty credit rating, sector and geography. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised and guaranteed.	3	***NO CHANGE*** Counterparty exposures continue to be managed and monitored at a consolidated level across the Group. Phoenix continues to increase exposure to illiquid credit assets, such as equity release mortgages, commercial real estate and fund financing. This is accompanied by corresponding enhancements to our control framework and is in line with industry trends.

Key to Strategic objectives icons	
Improve Customer outcomes	1
Drive Value	2

Key to Strategic objectives icons	
Manage Capital	3
Engage People	4

Change in risk from YE17
Risk Improving
No Change
Risk Heightened

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Changes in the regulatory and legislative landscape. OPERATIONAL	The conduct-focused regulator has a greater focus on customer outcomes. This may continue to challenge existing approaches and/or may result in remediation exercises where Phoenix Life cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the implications of Brexit can also impact the Group's financial position.	The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory change and the impact on our operations and lobbies where appropriate. Although not material in the context of the overall Group, we are exploring a range of options to ensure we can continue to service our Irish policyholders as part of Brexit contingency planning.	1 3	***RISK HEIGHTENED*** Phoenix implemented its customer model and Risk Management Framework to the Abbey Life business prior to commencing the transfer of operations to Phoenix Life. Although FCA investigations into Abbey Life remain ongoing, warranties and indemnities are in place to mitigate against an adverse outcome. Contingency plans continue to be progressed to enable EU policyholders to be serviced in the event of a 'Hard Brexit'. PRA issued a consultation paper (CP13/18) on potential changes to the valuation and capital treatment of equity release mortgages.
The Group fails to effectively integrate or transition acquired businesses. STRATEGIC	Completion of the purchase of Standard Life Assurance, as announced on 23 February 2018, is subject to regulatory approval. On completion, the challenge of transitioning Standard Life Assurance into the Group could introduce structural or operational challenges that result in Phoenix failing to generate the expected outcomes for policyholders or value for shareholders.	The financial and operational risks of the target business were assessed as part of the acquisition phase. Transition plans are being developed and resourced with appropriately skilled staff to ensure that the target operating models are delivered in line with expectations.	1 2 3	***RISK HEIGHTENED*** The heightened trend reflects the increased likelihood of this risk as the business approaches the point at which the acquisition of Standard Life Assurance is completed and transition will commence. This will include a calculation of the Group's Solvency II position from two internal models which will be one of the first in the industry.
Concentration in the policy administration outsource industry. CUSTOMER	Previous consolidation of the industry has led to an increased exposure for the Group to a smaller number of suppliers, with few alternative supply options. Further market concentration creates challenges regarding Phoenix's ongoing relationships and in the development and viability of effective exit plans under stressed conditions.	The Group's outsource strategy regularly considers our target operating model in light of the changing marketplace for policy administration outsourcing; the term remaining on current contractual arrangements and evolving regulatory and customer demands. The outcome of these reviews and related recommendations are shared with the Life Companies and approval sought for funding to support initiatives to implement transition/transformation activity where appropriate.		***NO CHANGE*** Phoenix continues to consider its model for policy administration as the business grows and the outsource marketplace changes. In line with regulatory requirements, effective exit plans continue to be maintained for the Group's outsourced relationships, forming part of our overall operational resilience.

EMERGING RISKS

The Group's senior management and Board also take emerging risks into account when considering potentially adverse outcomes and appropriate management actions prior to the risk crystallising.

Some of the current emerging risks the Group 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
CYBER RISK	The Group has in the past seen itself as a comparatively low target due to the closed book nature of its business. With the acquisition of the Standard Life Assurance business and the continued implementation of the Phoenix digital customer proposition, this risk profile is changing although it is not yet considered one of our principal risks or uncertainties.	Operational
SOLVENCY II CHANGES	Changes to the solvency regime as a result of government review and the UK's exit from the EU.	Financial Soundness

FINANCIALS

In this section

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Statement of Directors' Responsibilities

The Board of Directors of Phoenix Group Holdings (as listed below) hereby declares that, to the best of its knowledge:

– the condensed consolidated interim financial statements for the half year ended 30 June 2018, which have been prepared in accordance with IAS 34 Interim Financial Reporting, gives a true and fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings and its consolidated subsidiaries taken as whole;

– the Interim Report includes a true and fair view of the state of affairs of Phoenix Group Holdings and its consolidated subsidiaries as at 30 June 2018 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 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 true and 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

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

22 August 2018

PHOENIX GROUP HOLDINGS BOARD OF DIRECTORS

CHAIRMAN
Henry Staunton

EXECUTIVE DIRECTORS
Clive Bannister
James McConville

NON-EXECUTIVE DIRECTORS
Alastair Barbour
Karen Green
Wendy Mayall
John Pollock
Belinda Richards
Nicholas Shott
Kory Sorenson

Independent Review Report to Phoenix Group Holdings

To: The Board of Directors of Phoenix Group Holdings

INTRODUCTION

We have been engaged by the Company to review the condensed consolidated set of interim financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises of the condensed consolidated income statement, condensed statement of consolidated comprehensive income, pro forma reconciliation of group operating profit to result attributable to owners, condensed statement of consolidated financial position, condensed statement of consolidated cash flows, condensed statement of consolidated changes in equity 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 consolidated set of interim financial statements.

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.

DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, 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.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial reporting Standards ('IFRSs'). The condensed consolidated set of interim financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed consolidated set of financial statements in the half-yearly financial report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of interim financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

ERNST & YOUNG LLP

London
22 August 2018

Condensed Consolidated Income Statement

For the half year ended 30 June 2018

	Notes	**Half year ended 30 June 2018 £m**	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Gross premiums written		**1,089**	563	1,130
Less: premiums ceded to reinsurers		**(247)**	(76)	(205)
Net premiums written		**842**	487	925
Fees		**103**	63	173
Net investment income		**(56)**	2,394	4,986
Total revenue, net of reinsurance payable		**889**	2,944	6,084
Other operating income		**–**	1	5
Net income		**889**	2,945	6,089
Policyholder claims		**(1,971)**	(1,987)	(3,897)
Less: reinsurance recoveries		**368**	207	443
Change in insurance contract liabilities		**915**	981	1,392
Change in reinsurers' share of insurance contract liabilities		**273**	(156)	(423)
Transfer to unallocated surplus		**(21)**	(77)	(46)
Net policyholder claims and benefits incurred		**(436)**	(1,032)	(2,531)
Change in investment contract liabilities		**(96)**	(1,522)	(2,673)
Acquisition costs		**(4)**	(3)	(6)
Change in present value of future profits		**5**	7	5
Amortisation of acquired in-force business		**(49)**	(46)	(109)
Amortisation of other intangibles		**(8)**	(8)	(17)
Administrative expenses		**(280)**	(321)	(590)
Net expense/(income) attributable to unitholders		**4**	(25)	(43)
Total operating expenses		**(864)**	(2,950)	(5,964)
Profit/(loss) before finance costs and tax		**25**	(5)	125
Finance costs		**(67)**	(64)	(132)
Loss for the period before tax		**(42)**	(69)	(7)
Tax credit/(charge) attributable to policyholders' returns	5	**4**	(32)	(21)
Loss before the tax attributable to owners		**(38)**	(101)	(28)
Tax credit/(charge)	5	**18**	(27)	(20)
Add: tax attributable to policyholders' returns	5	**(4)**	32	21
Tax credit attributable to owners	5	**14**	5	1
Loss for the period attributable to owners of the parent		**(24)**	(96)	(27)
Earnings per ordinary share				
Basic (pence per share)	6	**(6.1)p**	(24.5)p	(7.0)p
Diluted (pence per share)	6	**(6.1)p**	(24.5)p	(7.0)p

Condensed Statement of Consolidated Comprehensive Income

For the half year ended 30 June 2018

	Notes	**Half year ended 30 June 2018 £m**	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Loss for the period		**(24)**	(96)	(27)
Other comprehensive income/(expense):				
Items that are or may be reclassified to profit or loss:				
Cash flow hedges				
Fair value gains/(losses) arising during the period		**5**	–	(13)
Reclassification adjustments for amounts recognised in profit or loss		**(8)**	–	2
Items that will not be reclassified to profit or loss:				
Owner-occupied property revaluation gains		**–**	1	1
Remeasurements of net defined benefit asset/ liability		**111**	42	43
Tax (charge)/credit relating to other comprehensive income items	5	**(1)**	1	3
Total other comprehensive income for the period		**107**	44	36
Total comprehensive income/(expense) for the period		**83**	(52)	9
Attributable to:				
Owners of the parent		**83**	(52)	9
		83	(52)	9

Pro Forma Reconciliation of Group Operating Profit to Result attributable to owners

For the half year ended 30 June 2018

	Notes	**Half year ended 30 June 2018 £m**	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Operating profit				
Phoenix Life		**228**	226	388
Group costs		**(12)**	(11)	(20)
Total operating profit		**216**	215	368
Investment return variances and economic assumption changes on long-term business	4.2	**27**	(56)	(6)
Variance on owners' funds	4.3	**(136)**	(77)	(87)
Amortisation of acquired in-force business		**(46)**	(42)	(102)
Amortisation of other intangibles		**(8)**	(8)	(17)
Other non-operating items	3.2	**(37)**	(82)	(80)
Profit/(loss) before finance costs attributable to owners		**16**	(50)	76
Finance costs attributable to owners		**(54)**	(51)	(104)
Loss before tax attributable to owners	3.2	**(38)**	(101)	(28)
Tax credit attributable to owners		**14**	5	1
Loss for the period attributable to owners		**(24)**	(96)	(27)

Condensed Statement of Consolidated Financial Position

As at 30 June 2018

	Notes	**30 June 2018 £m**	30 June 2017 £m	31 Dec 2017 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	8	**–**	–	–
Share premium		**1,354**	1,550	1,452
Shares held by employee benefit trust		**(4)**	(2)	(2)
Foreign currency translation reserve		**96**	96	96
Owner-occupied property revaluation reserve		**5**	5	5
Cash flow hedging reserve		**(14)**	–	(11)
Retained earnings		**1,703**	1,539	1,615
Total equity attributable to owners of the parent		**3,140**	3,188	3,155
Tier 1 notes	9	**494**	–	–
Total equity		**3,634**	3,188	3,155
Liabilities				
Pension scheme liability	10	**544**	658	633
Insurance contract liabilities				
Liabilities under insurance contracts	11	**43,520**	44,831	44,435
Unallocated surplus		**946**	956	925
		44,466	45,787	45,360
Financial liabilities				
Investment contracts		**26,213**	27,392	26,733
Borrowings	12	**1,760**	2,011	1,778
Deposits received from reinsurers		**348**	374	368
Derivatives		**1,242**	1,425	1,242
Net asset value attributable to unitholders		**690**	1,083	840
Obligations for repayment of collateral received		**1,575**	1,522	1,961
	13	**31,828**	33,807	32,922
Provisions		**110**	140	134
Deferred tax		**338**	366	366
Reinsurance payables		**27**	20	23
Payables related to direct insurance contracts		**544**	541	522
Current tax		**4**	25	5
Accruals and deferred income		**190**	160	179
Other payables		**512**	494	144
Total liabilities		**78,563**	81,998	80,288
Total equity and liabilities		**82,197**	85,186	83,443

Condensed Statement of Consolidated Financial Position

As at 30 June 2018

continued

	Notes	**30 June 2018 £m**	30 June 2017 £m	31 Dec 2017 £m
ASSETS				
Pension scheme asset	10	**384**	280	322
Intangible assets				
Goodwill		**57**	57	57
Acquired in-force business		**1,249**	1,361	1,298
Other Intangibles		**199**	211	202
		1,505	1,629	1,557
Property, plant and equipment		**27**	28	26
Investment property		**615**	650	612
Financial assets				
Loans and deposits		**2,288**	1,327	1,812
Derivatives		**2,120**	2,608	2,760
Equities		**16,009**	17,816	17,234
Investment in associate		**519**	573	550
Fixed and variable rate income securities		**26,789**	29,253	26,998
Collective investment schemes		**18,527**	17,964	18,901
Reinsurers' share of investment contract liabilities		**6,009**	6,606	6,085
	13	**72,261**	76,147	74,340
Insurance assets				
Reinsurers' share of insurance contract liabilities		**3,594**	3,588	3,320
Reinsurance receivables		**39**	33	32
Insurance contract receivables		**9**	8	7
		3,642	3,629	3,359
Current tax		**54**	36	47
Prepayments and accrued income		**359**	360	355
Other receivables		**1,171**	659	580
Cash and cash equivalents		**2,179**	1,768	2,245
Total assets		**82,197**	85,186	83,443

Condensed Statement of Consolidated Cash Flows

For the half year ended 30 June 2018

	Notes	**Half year ended 30 June 2018 £m**	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Cash flows from operating activities				
Cash (utilised)/generated by operations	14	**(388)**	276	1,156
Taxation paid		**(18)**	(13)	(35)
Net cash flows from operating activities		**(406)**	263	1,121
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**1**	1	2
Ordinary share dividends paid	7	**(99)**	(94)	(193)
Repayment of policyholder borrowings		**(32)**	(14)	(77)
Repayment of shareholder borrowings		**–**	(503)	(1,053)
Proceeds from new shareholder borrowings, net of associated expenses		**–**	446	830
Proceeds from issuance of Tier 1 Notes, net of associated expenses		**494**	–	–
Proceeds from sale of internal holding in £428 million subordinated notes		**–**	32	32
Interest paid on policyholder borrowings		**–**	–	(8)
Interest paid on shareholder borrowings		**(24)**	(29)	(75)
Net cash flows from financing activities		**340**	(161)	(542)
Net (decrease)/increase in cash and cash equivalents		**(66)**	102	579
Cash and cash equivalents at the beginning of the period		**2,245**	1,666	1,666
Cash and cash equivalents at the end of the period		**2,179**	1,768	2,245

Condensed Statement of Consolidated Changes in Equity

For the half year ended 30 June 2018

	Share capital (note 8) £m	Share premium £m	Shares held by employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m	Tier 1 Notes (note 9) £m	Total £m
At 1 January 2018	–	1,452	(2)	96	5	(11)	1,615	3,155	–	3,155
Loss for the period	–	–	–	–	–	–	(24)	(24)	–	(24)
Other comprehensive income for the period	–	–	–	–	–	(3)	110	107	–	107
Total comprehensive income for the period	–	–	–	–	–	(3)	86	83	–	83
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	–	1	–	1
Dividends paid on ordinary shares	–	(99)	–	–	–	–	–	(99)	–	(99)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	4	4	–	4
Shares distributed by the employee benefit trust	–	–	2	–	–	–	(2)	–	–	–
Shares acquired by the employee benefit trust	–	–	(4)	–	–	–	–	(4)	–	(4)
Issue of Tier 1 Notes	–	–	–	–	–	–	–	–	494	494
At 30 June 2018	–	1,354	(4)	96	5	(14)	1,703	3,140	494	3,634

Condensed Statement of Consolidated Changes in Equity

For the half year ended 30 June 2017

	Share capital (note 8) £m	Share premium £m	Shares held by employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Retained earnings £m	Total £m
At 1 January 2017	–	1,643	(7)	96	4	1,597	3,333
Loss for the period	–	–	–	–	–	(96)	(96)
Other comprehensive income for the period	–	–	–	–	1	43	44
Total comprehensive income for the period	–	–	–	–	1	(53)	(52)
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	1
Dividends paid on ordinary shares	–	(94)	–	–	–	–	(94)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	4	4
Shares distributed by employee benefit trust	–	–	9	–	–	(9)	–
Shares acquired by employee benefit trust	–	–	(4)	–	–	–	(4)
At 30 June 2017	–	1,550	(2)	96	5	1,539	3,188

Condensed Statement of Consolidated Changes in Equity

For the year ended 31 December 2017

	Share capital (note 8) £m	Share premium £m	Shares held by employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2017	–	1,643	(7)	96	4	–	1,597	3,333
Loss for the period	–	–	–		–	–	(27)	(27)
Other comprehensive income for the period	–	–	–	–	1	(11)	46	36
Total comprehensive income for the period	–	–	–	–	1	(11)	19	9
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	–	–	2
Dividends paid on ordinary shares	–	(193)	–	–	–	–	–	(193)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	8	8
Shares distributed by employee benefit trust	–	–	9	–	–	–	(9)	–
Shares acquired by employee benefit trust	–	–	(4)	–	–	–	–	(4)
At 31 December 2017	–	1,452	(2)	96	5	(11)	1,615	3,155

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 2018 comprise the interim financial statements of Phoenix Group Holdings ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 15 to 44 and were authorised by the Board of Directors for issue on 22 August 2018. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young LLP and their review report appears on page 14.

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ('IASB'). The accounting policies applied in the interim financial statements are consistent with those set out in the 2017 consolidated financial statements except for the adoption of new standards and interpretations effective from 1 January 2018 as referred to below.

The interim financial statements do not include all the information and disclosures required in the 2017 consolidated financial statements, and should be read in conjunction with the Group's 2017 Annual Report and Accounts, which have been prepared in accordance with International Financial Reporting Standards ('IFRSs') issued by the IASB.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2018:

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to insurance contracts or financial instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement. The Group adopted IFRS 15 using the full retrospective method of adoption however the effect of adopting IFRS 15 has been minimal and has not resulted in an adjustment in either the current or prior period. There has been no change to the Group's accounting policies nor to the basis of revenue recognition. Additional disclosures will be incorporated within the 2018 consolidated financial statements and 'Disaggregation of revenue' disclosures have been included within note 3 in these interim financial statements.
- Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4. The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 from applying IFRS 9 until 1 January 2021 as a result of meeting the exemption criteria as at 31 December 2015. As required by IFRS 4, a number of disclosures will be made in the 2018 consolidated financial statements to provide information to allow comparison with entities adopting the standard in 2018.
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group has reviewed its current share-based payment schemes and has determined that it does not have any cash-settled share based payment schemes and that the narrow scope amendment regarding 'net settlement features' does not apply. As a consequence, these amendments do not have any impact on the Group.
- Amendments to IAS 40 Transfers of Investment Property. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A change in management's intentions for the use of a property of itself does not provide evidence of a change in use. These amendments do not have any impact on the Group.
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group.
- Annual Improvements Cycle 2015-2017: Amendments to IFRS 1 First-time adoption of IFRSs and Amendments to IAS 28 Investments in Associates and Joint Ventures. The first amendment deletes short-term exemptions for first time adopters as they have now served their intended purpose. The second amendment clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. These amendments do not have any impact on the Group.

Notes to the Condensed Consolidated Interim Financial Statements continued

1. BASIS OF PREPARATION continued

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. This standard applies to annual reporting periods beginning on or after 1 January 2021 and once effective, will replace IFRS 4. IFRS 17 applies to all types of insurance contracts and investment contracts with discretionary participation features. The impact of the adoption of IFRS 17 has yet to be fully assessed by the Group but it is expected there will be significant impacts relating to the measurement and presentation of the contracts in scope of the standard. During the period the Group has prepared a detailed implementation plan in respect of IFRS 17 and has performed an initial high level impact assessment. Work is now ongoing to determine the detailed impacts of the standard and to develop appropriate accounting methodologies and policies.

After making enquiries, the Directors consider it appropriate to adopt the going concern basis in preparing these interim financial statements.

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the 2017 consolidated financial statements except in relation to the treatment of the Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes ('Tier 1 Notes') which were issued during the period. These Tier 1 Notes meet the definition of equity for accounting purposes and accordingly are shown as a separate category within equity at the proceeds of issue. The coupons on the instruments are recognised as distributions on the date of payment and are charged directly to the statement of consolidated changes in equity.

3. SEGMENTAL ANALYSIS

The Group defines and presents operating segments 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.

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. As such, Phoenix Life is considered to be the Group's only reportable segment, which includes all of the operating insurance entities and management services entities in the Group.

Segment performance is evaluated based on profit or loss which, in certain respects, is presented differently from profit or loss in the consolidated financial statements. Revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. Group financing (including finance costs) and owners' taxes 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. Segment results include those transfers between business segments which are then eliminated on consolidation.

Predominantly all revenues from external customers are sourced in the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

Predominantly all non-current assets are located in the UK. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments.

3.1 SEGMENTAL RESULT

Half year ended 30 June 2018

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	842	–	842
Fees[1]	103	–	103
Net investment income	36	(92)	(56)
Net income	981	(92)	889
Net policyholder claims and benefits incurred	(436)	–	(436)
Amortisation of acquired in-force business	(49)	–	(49)
Amortisation of other intangibles	(8)	–	(8)
	(57)	–	(57)
Change in investment contract liabilities	(96)	–	(96)
Other expenses	(231)	(44)	(275)
Total operating expenses	(820)	(44)	(864)
Profit/(loss) before finance costs and tax	161	(136)	25
Finance costs	(25)	(42)	(67)
Profit/(loss) before tax	136	(178)	(42)
Tax attributable to policyholders' returns	4	–	4
Segmental result before the tax attributable to owners	140	(178)	(38)

1 Fee income of £103 million includes annual management charges of £92 million.

Notes to the Condensed Consolidated Interim Financial Statements continued

3. SEGMENTAL ANALYSIS continued

3.1 SEGMENTAL RESULT continued

Half year ended 30 June 2017

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	487	–	487
Fees[1]	63	–	63
Net investment income	2,414	(20)	2,394
Other operating income	1	–	1
Net income	2,965	(20)	2,945
Net policyholder claims and benefits incurred	(1,032)	–	(1,032)
Amortisation of acquired in-force business	(46)	–	(46)
Amortisation of other intangibles	(8)	–	(8)
	(54)	–	(54)
Change in investment contract liabilities	(1,522)	–	(1,522)
Other expenses	(280)	(62)	(342)
Total operating expenses	(2,888)	(62)	(2,950)
Profit before finance costs and tax	77	(82)	(5)
Finance costs	(25)	(39)	(64)
Profit/(loss) before tax	52	(121)	(69)
Tax attributable to policyholders' returns	(32)	–	(32)
Segmental result before the tax attributable to owners	20	(121)	(101)

1 Fee income of £63 million includes annual management charges of £55 million.

Year ended 31 December 2017

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	925	–	925
Fees[1]	173	–	173
Net investment income	4,977	9	4,986
Other operating income	5	–	5
Net income	6,080	9	6,089
Net policyholder claims and benefits incurred	(2,531)	–	(2,531)
Amortisation of acquired in-force business	(109)	–	(109)
Amortisation of other intangibles	(17)	–	(17)
	(126)	–	(126)
Change in investment contract liabilities	(2,673)	–	(2,673)
Other expenses	(528)	(106)	(634)
Total operating expenses	(5,858)	(106)	(5,964)
Profit/(loss) before finance costs and tax	222	(97)	125
Finance costs	(52)	(80)	(132)
Profit/(loss) before tax	170	(177)	(7)
Tax attributable to policyholders' returns	(21)	–	(21)
Segmental result before the tax attributable to owners	149	(177)	(28)

1 Fee income of £173 million includes annual management charges of £131 million.

Notes to the Condensed Consolidated Interim Financial Statements
continued

3. SEGMENTAL ANALYSIS continued

3.2 RECONCILIATION OF OPERATING PROFIT/(LOSS) ITEMS TO THE SEGMENTAL RESULT

Half year ended 30 June 2018

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss)	**228**	**(12)**	**216**
Investment return variances and economic assumption changes on long-term business	**27**	**–**	**27**
Variance on owners' funds	**(32)**	**(104)**	**(136)**
Amortisation of acquired in-force business	**(46)**	**–**	**(46)**
Amortisation of other intangibles	**(8)**	**–**	**(8)**
Other non-operating items	**(17)**	**(20)**	**(37)**
Finance costs attributable to owners	**(12)**	**(42)**	**(54)**
Segment result before the tax attributable to owners	**140**	**(178)**	**(38)**

Other non-operating items include:

- a provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products;
- costs of £17 million associated with the acquisition of Standard Life Assurance;
- a net benefit of £52 million reflecting anticipated cost savings associated with process improvements and continued investment in the digitalisation of the customer journey; and
- net other one-off items totalling a cost of £4 million.

Half year ended 30 June 2017

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss)	226	(11)	215
Investment return variances and economic assumption changes on long-term business	(56)	–	(56)
Variance on owners' funds	(61)	(16)	(77)
Amortisation of acquired in-force business	(42)	–	(42)
Amortisation of other intangibles	(8)	–	(8)
Other non-operating items	(27)	(55)	(82)
Finance costs attributable to owners	(12)	(39)	(51)
Segment result before the tax attributable to owners	20	(121)	(101)

Other non-operating items include:

- a premium of £25 million paid on redemption of £178 million principal of the senior unsecured bond;
- costs of £18 million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses;
- a provision of £28 million in respect of a commitment to the reduction of ongoing charges for workplace pension products;
- an £8 million increase in the provision for costs of claims relating to historic creditor insurance underwritten by a subsidiary of the Group, PA(GI) Limited; and
- net other one-off items totalling a cost of £3 million, including corporate project costs.

Year ended 31 December 2017

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss)	388	(20)	368
Investment return variances and economic assumption changes on long-term business	(6)	–	(6)
Variance on owners' funds	(72)	(15)	(87)
Amortisation of acquired in-force business	(102)	–	(102)
Amortisation of other intangibles	(17)	–	(17)
Other non-operating items	(18)	(62)	(80)
Finance costs attributable to owners	(24)	(80)	(104)
Segment result before the tax attributable to owners	149	(177)	(28)

Other non-operating items include:

- a premium of £25 million paid on redemption of £178 million principal of the senior unsecured bond;
- costs of £21 million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses;
- costs of £20 million in respect of short-term expense overruns arising from the AXA Wealth businesses prior to completion of the implementation of the Phoenix operating model;
- a provision of £27 million in respect of a commitment to the reduction of ongoing charges for workplace pension products;
- a £21 million increase in the provision for costs for claims relating to historic creditor insurance underwritten by a subsidiary of the Group, PA (GI) Limited, offset by the recognition of recoveries due or received from third parties under contractual arrangements of £39 million; and
- net other one-off items totalling a cost of £5 million, including corporate project costs.

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, and reflects hedging arrangements the Group has in place.

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15 year duration plus 10bps at the start of the year. A risk premium of 350bps is added to the risk-free yield for equities (30 June 2017 and 31 December 2017: 350bps), 250bps for properties (30 June 2017 and 31 December 2017: 250bps), 150bps for other fixed interest assets (30 June 2017 and 31 December 2017: 150bps) and 50bps for gilts (30 June 2017 and 31 December 2017: 50bps).

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

	Half year ended 30 June 2018 %	Half year ended 30 June 2017 %	Year ended 31 Dec 2017 %
Equities	**5.2**	5.0	5.0
Properties	**4.2**	4.0	4.0
Gilts	**2.2**	2.0	2.0
Other fixed interest	**3.2**	3.0	3.0

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.

Notes to the Condensed Consolidated Interim Financial Statements
continued

4. INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES continued

4.2 LIFE ASSURANCE BUSINESS continued

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

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Investment return variances and economic assumption changes on long-term business	**27**	(56)	(6)

Positive investment return variances and economic assumption changes on long-term business of £27 million in the first half of 2018 (half year ended 30 June 2017: negative £56 million; year ended 31 December 2017: negative £6 million) primarily arise due to the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets. This has been partially offset by the adverse impact of rises in yields and equity market gains during the period. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

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 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Variance on owners' funds of subsidiary undertakings	**(136)**	(77)	(87)

The adverse variance on owners' funds of subsidiary undertakings of £136 million (30 June 2017: negative £77 million; 31 December 2017: negative £87 million) includes the impact of fair value losses on derivatives held in the shareholder funds of the life companies to protect the Group's regulatory capital position as a result of an increase in yields in the period together with swap decay costs. It also reflects the impact of derivative instruments entered into on announcement of the Standard Life Assurance transaction in order to hedge shareholder exposures to equity risk from that business.

Following equity market gains in the period, unrealised losses of £83 million have been recognised on these instruments, together with option premiums of £22 million.

5. TAX (CREDIT)/CHARGE

5.1 CURRENT PERIOD TAX (CREDIT)/CHARGE

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Current tax:			
UK corporation tax	**3**	18	13
Overseas tax	**13**	12	21
	16	30	34
Adjustment in respect of prior years	**(5)**	1	(9)
Total current tax charge	**11**	31	25
Deferred tax:			
Origination and reversal of temporary differences	**(28)**	(5)	(1)
Change in the rate of UK corporation tax	**–**	1	4
Write up of deferred tax assets	**(1)**	–	(8)
Total deferred tax credit	**(29)**	(4)	(5)
Total tax (credit)/charge	**(18)**	27	20
Attributable to:			
– policyholders	**(4)**	32	21
– owners	**(14)**	(5)	(1)
Total tax (credit)/charge	**(18)**	27	20

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each period. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax credit attributable to policyholder earnings was £4 million (half year ended 30 June 2017: £32 million charge; year ended 31 December 2017: £21 million charge).

5.2 TAX CHARGED/(CREDITED) TO OTHER COMPREHENSIVE INCOME

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Current tax credit on share schemes	**–**	–	(1)
Deferred tax charge/(credit) on defined benefit schemes	**1**	(1)	(2)
Total tax charge/(credit) relating to other comprehensive income items	**1**	(1)	(3)

5.3 RECONCILIATION OF TAX CHARGE

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Loss before tax	**(42)**	(69)	(7)
Policyholder tax credit/(charge)	**4**	(32)	(21)
Loss before the tax attributable to owners	**(38)**	(101)	(28)
Tax credit at standard UK[1] rate of 19.0% (30 June 2017: 19.25%; 31 December 2017: 19.25%)	**(7)**	(19)	(5)
Non-taxable income and gains and losses[2]	**(5)**	(3)	(16)
Disallowable deductions[3]	**6**	5	1
Prior year tax credit for shareholders[4]	**(4)**	(7)	(7)
Movement on acquired in-force amortisation at less than 19.0% (30 June 2017: 19.25%; 31 December 2017: 19.25%)	**–**	1	3
Profits taxed at rates other than 19.0% (30 June 2017: 19.25%; 31 December 2017: 19.25%)[5]	**(4)**	4	2
Recognition of previously unrecognised deferred tax assets	**–**	–	(2)
Deferred tax rate change	**–**	2	4
Current year losses not valued[6]	**–**	10	15
Other	**–**	2	4
Owners' tax credit	**(14)**	(5)	(1)
Policyholder tax (credit)/charge	**(4)**	32	21
Total tax (credit)/charge for the period	**(18)**	27	20

1 The Phoenix Life reportable segment operates predominately in the UK. The reconciliation of the tax (credit)/charge has therefore been completed by reference to the standard rate of UK tax rather than by reference to the Jersey income tax rate of 0% which was applicable to Phoenix Group Holdings until it became tax resident in the UK on 31 January 2018.
2 Includes non-taxable dividends and gains, non-taxable pension scheme items, non-taxable hedge accounting adjustment on consolidation and non-taxable recoveries from third parties relating to the claims for redress on creditor insurance underwritten by PA(GI) Limited.
3 Included within disallowable deductions is a consolidation adjustment on the PGL Pension scheme 'buy-in' agreement of £4 million and costs in relation to projects of £1 million.
4 The prior year credit mainly relates to the impact of reaching agreement with HMRC in respect of the Group's prior year tax returns.
5 This predominately relates to IFRS transitional adjustments which are being recognised at the full shareholder rate rather than marginal policyholder tax rates.
6 Represents current year losses carried forward.

The Finance Act 2016 reduced the rates of corporation tax from 20% to 19% in April 2017 and to 17% from April 2020. Consequently a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	**38**	31	37
Excess expenses and deferred acquisition costs	**–**	33	–
Provisions and other temporary differences	**–**	3	–
Deferred tax assets not recognised on capital losses[7]	**15**	15	16

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

On 29 March 2017 the UK Government triggered Article 50 initiating a two year process for leaving the EU. There is some uncertainty about how the existing tax legislation will apply after the UK's exit. No changes are required to the measurement of tax in these financial statements but this will be monitored and reassessed at each reporting period as negotiations continue.

Notes to the Condensed Consolidated Interim Financial Statements
continued

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 and warrants.

6.1 BASIC EARNINGS PER SHARE

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

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Loss attributable to owners of the parent	**(24)**	(96)	(27)

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

	Half year ended 30 June 2018 Number million	Half year ended 30 June 2017 Number million	Year ended 31 Dec 2017 Number million
Issued ordinary shares at beginning of the period	**393**	393	393
Own shares held by employee benefit trust	**(1)**	(1)	–
Weighted average number of ordinary shares	**392**	392	393

Basic earnings per share is as follows:

	Half year ended 30 June 2018 pence	Half year ended 30 June 2017 pence	Year ended 31 Dec 2017 pence
Basic earnings per share	**(6.1)**	(24.5)	(7.0)

6.2 DILUTED EARNINGS PER SHARE

The result attributable to owners of the parent used in the calculation of diluted earnings per share is the same as that used in the basic earnings per share calculation in note 6.1 above. The diluted weighted average number of ordinary shares outstanding during the period is also the same as that used in the basic earnings per share calculation in note 6.1 above. As losses have an anti-dilutive effect, none of the share-based awards have a dilutive effect for the half year ended 30 June 2018, the half year ended 30 June 2017 and for the year ended 31 December 2017.

Diluted earnings per share is as follows:

	Half year ended 30 June 2018 pence	Half year ended 30 June 2017 pence	Year ended 31 Dec 2017 pence
Diluted earnings per share	**(6.1)**	(24.5)	(7.0)

5 million warrants issued on 2 September 2009 to certain entities providing finance to the Group could potentially dilute basic earnings per share in the future. The warrants do not have a dilutive effect for the periods presented due to the exercise price being significantly higher than the share price of the Company. See note 17 for changes to the warrants after the reporting period.

7. DIVIDENDS ON ORDINARY SHARES

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Dividend declared and paid	**99**	94	193

On 14 March 2018, the Board recommended a dividend of 25.1p per share in respect of the year ended 31 December 2017. The dividend was approved at the Company's Annual General Meeting, which was held on 2 May 2018. The dividend amounted to £99 million and was paid on 4 May 2018.

8. SHARE CAPITAL

	30 June 2018 £	30 June 2017 £	31 Dec 2017 £
Authorised:			
410 million (30 June 2017: 410 million; 31 December 2017: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750	31,750
Issued and fully paid:			
393.4 million (30 June 2017: 393.1 million; 31 December 2017: 393.2 million) ordinary shares of €0.0001 each	**33,159**	33,137	33,145

The value of the authorised share capital was translated at a historical rate. Issued and fully paid share capital transactions are translated at the rate prevailing at the date of issue.

Movements in share capital during the period:

	Number	**£**
Shares in issue at 1 January 2018	**393,232,644**	**33,145**
Other ordinary shares issued in the period	**160,266**	**14**
Shares in issue at 30 June 2018	**393,392,910**	**33,159**

During the period, the Company issued 160,266 shares at a total premium of £1 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

	Number	£
Shares in issue at 1 January 2017	392,849,817	33,112
Other ordinary shares issued in the period	285,025	25
Shares in issue at 30 June 2017	393,134,842	33,137
Other ordinary shares issued in the period	97,802	8
Shares in issue at 31 December 2017	393,232,644	33,145

During 2017, the Company issued 382,827 shares at a premium of £2 million in order to satisfy its obligations to employees under the Group's sharesave schemes.

9. TIER 1 NOTES

	Tier 1 Notes £m
At 1 January 2018	–
Issue of notes in the period	494
At 30 June 2018	**494**

On 26 April 2018, Phoenix Group Holdings ('PGH') issued £500 million of Tier 1 Notes. The Tier 1 Notes are unsecured and subordinated obligations of PGH. The Tier 1 Notes will bear interest on their principal amount at a fixed rate of 5.75% p.a. up to the 'First Call Date' of 26 April 2028. Thereafter the fixed rate of interest will be reset on the First Call Date and on each fifth anniversary of this date. Interest will be payable on the Tier 1 Notes semi-annually in arrear on 26 October and 26 April.

The Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of PGH; accordingly the Tier 1 Notes meet the definition of equity for financial reporting purposes and are disclosed as such in the consolidated interim financial statements.

The Tier 1 Notes may only be redeemed at par at the option of PGH on or after the fifth anniversary of the Issue Date unless such redemption is funded out of the proceeds of a new issuance of, or the Tier 1 Notes are exchanged into, Tier 1 Own Funds of the same or a higher quality than the Tier 1 Notes. In respect of any redemption or purchase of the Tier 1 Notes, such redemption or purchase is subject to the receipt of permission to do so from the PRA. Furthermore, on occurrence of a Trigger Event the Tier 1 Notes will be subject to a permanent write-down in value to zero.

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10. 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 and the Abbey Life Staff Pension Scheme as at 30 June 2018.

The economic surplus of the PGL Pension Scheme amounted to £550 million (30 June 2017: £495 million; 31 December 2017: £500 million). The carrying value of insurance policies effected by the PGL Pension Scheme with the Group of £870 million (30 June 2017: £916 million; 31 December 2017: £916 million) are eliminated on consolidation and a deduction is made for the provision of tax on that part of the economic surplus available as a refund on a winding-up of the scheme and also at 30 June 2017 in relation to the irrecoverable amount of the minimum funding requirement obligations. The resulting net pension scheme liability of the PGL Pension Scheme amounted to £487 million (30 June 2017: £568 million; 31 December 2017: £563 million).

The pension scheme asset of the Pearl Group Staff Pension Scheme amounted to £384 million (30 June 2017: £280 million; 31 December 2017: £322 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 £57 million (30 June 2017: £90 million; 31 December 2017: £70 million).

11. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS

11.1 VALUATION OF PARTICIPATING INSURANCE AND INVESTMENT CONTRACTS

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

11.2 VALUATION OF NON-PARTICIPATING INSURANCE CONTRACTS

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

11.3 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 reference curve based on a swap curve with a liquidity premium of 10bps. For non-participating business only, the Group makes an explicit adjustment to the risk-free rate to adjust for illiquidity in respect of assets backing illiquid liabilities.

For participating insurance business the assumptions about future demographic trends are intended to be 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 the more significant changes that impacted the result attributable to owners during the period was as follows:

	Increase/ (decrease) in insurance liabilities 30 June 2018 £m	(Decrease)/ increase in insurance liabilities 30 June 2017 £m	(Decrease)/ increase in insurance liabilities 31 Dec 2017 £m
Change in longevity assumptions	**–**	(126)	(148)
Change in persistency assumptions	**7**	75	120
Change in mortality assumptions	**–**	25	15
Change in expenses assumptions	**(23)**	(69)	(79)

12. BORROWINGS

	30 June 2018 £m	30 June 2017 £m	31 Dec 2017 £m
Carrying value			
Limited recourse bonds 2022 7.59%	**57**	67	56
Property reversions loan	**121**	168	131
Retrocession contracts	**29**	65	51
Total policyholder borrowings	**207**	300	238
£200 million 7.25% unsecured subordinated loan	**182**	172	177
£300 million senior unsecured bond	**121**	121	121
£428 million subordinated notes	**426**	425	426
£900 million unsecured revolving credit facility	**–**	545	–
£450 million Tier 3 subordinated notes	**448**	448	448
US $500 million Tier 2 bonds	**376**	–	368
Total shareholder borrowings	**1,553**	1,711	1,540
Total borrowings	**1,760**	2,011	1,778

13. FINANCIAL INSTRUMENTS

13.1 FAIR VALUES

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

Financial assets

	30 June 2018		30 June 2017		31 Dec 2017	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets at fair value through profit or loss:						
Held for trading – derivatives	**2,120**	**2,120**	2,608	2,608	2,760	2,760
Designated upon initial recognition:						
Loans and deposits	**1,950**	**1,950**	932	932	1,444	1,444
Equities	**16,009**	**16,009**	17,816	17,816	17,234	17,234
Investment in associate	**519**	**519**	573	573	550	550
Fixed and variable rate income securities	**26,789**	**26,789**	29,253	29,253	26,998	26,998
Collective investment schemes	**18,527**	**18,527**	17,964	17,964	18,901	18,901
Reinsurers' share of investment contract liabilities	**6,009**	**6,009**	6,606	6,606	6,085	6,085
Financial assets measured at amortised cost:						
Loans and deposits	**338**	**338**	395	395	368	368
Total financial assets[1]	**72,261**	**72,261**	76,147	76,147	74,340	74,340

Financial liabilities

	30 June 2018		30 June 2017		31 Dec 2017	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial liabilities at fair value through profit or loss:						
Held for trading – derivatives	**1,242**	**1,242**	1,425	1,425	1,242	1,242
Designated upon initial recognition:						
Borrowings	**150**	**150**	233	233	182	182
Net asset value attributable to unitholders	**690**	**690**	1,083	1,083	840	840
Investment contract liabilities	**26,213**	**26,213**	27,392	27,392	26,733	26,733
Financial liabilities measured at amortised cost:						
Borrowings	**1,610**	**1,692**	1,778	1,940	1,596	1,812
Deposits received from reinsurers	**348**	**348**	374	374	368	368
Obligations for repayment of collateral received[2]	**1,575**	**–**	1,522	–	1,961	–
	31,828	**30,335**	33,807	32,447	32,922	31,177

1 Total financial assets includes £1,080 million (30 June 2017: £1,102 million; 31 December 2017: £1,115 million) of assets held In a collateral account pertaining to the PGL pension scheme buy in agreement.

2 This liability has no expected settlement date. As the obligations relate to the repayment of collateral received in the form of cash, the liability is stated at the value of the consideration received and therefore no fair value has been disclosed.

13.2 FAIR VALUE HIERARCHY

13.2.1 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 unquoted equities, over-the-counter derivatives, loans and deposits and collective investment schemes, where published bid prices are not available, are estimated using pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash 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 small number of investment vehicles and debt securities, standard valuation models are used, as due to their nature and complexity they have no external market. Inputs into such models are based on observable market data where applicable. The fair value of loans, derivatives and some borrowings with no external market is determined by internally developed discounted cash flow models using appropriate assumptions corroborated with external market data where possible.

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

13.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2018

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	32	1,955	133	2,120
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and deposits	–	–	1,950	1,950
Equities	15,381	–	628	16,009
Investment in associate	519	–	–	519
Fixed and variable rate income securities	18,613	7,729	447	26,789
Collective investment schemes	17,572	915	40	18,527
Reinsurers' share of investment contract liabilities	–	6,009	–	6,009
	52,085	14,653	3,065	69,803
Total financial assets at fair value	52,117	16,608	3,198	71,923

Notes to the Condensed Consolidated Interim Financial Statements
continued

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

13.2.2 Fair value hierarchy of financial instruments measured at fair value continued

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	**25**	**1,130**	**87**	**1,242**
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	**–**	**–**	**150**	**150**
Investment contract liabilities	**–**	**26,213**	**–**	**26,213**
Net asset value attributable to unitholders	**690**	**–**	**–**	**690**
	690	**26,213**	**150**	**27,053**
Total financial liabilities at fair value	**715**	**27,343**	**237**	**28,295**

At 30 June 2017 Restated[1]

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	52	2,511	45	2,608
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and deposits	–	–	932	932
Equities	17,175	10	631	17,816
Investment in associate	573	–	–	573
Fixed and variable rate income securities	18,731	10,315	207	29,253
Collective investment schemes	16,566	1,319	79	17,964
Reinsurers' share of investment contract liabilities	–	6,606	–	6,606
	53,045	18,250	1,849	73,144
Total financial assets at fair value	53,097	20,761	1,894	75,752

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	14	1,155	256	1,425
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	233	233
Investment contract liabilities	–	27,392	–	27,392
Net asset value attributable to unitholders	1,083	–	–	1,083
	1,083	27,392	233	28,708
Total financial liabilities at fair value	1,097	28,547	489	30,133

1 Comparative figures have been restated following a re-assessment of the lowest level input that is significant to the fair value measurement of collective investment schemes held by Abbey Life, a Group entity. This resulted in £3,334 million of collective investment schemes being reclassified from Level 2 to Level 1.

At 31 December 2017

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	28	2,588	144	2,760
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and deposits	–	–	1,444	1,444
Equities	16,621	6	607	17,234
Investment in associate	550	–	–	550
Fixed and variable rate income securities	19,194	7,393	411	26,998
Collective investment schemes	17,923	929	49	18,901
Reinsurers' share of investment contract liabilities	–	6,085	–	6,085
	54,288	14,413	2,511	71,212
Total financial assets at fair value	54,316	17,001	2,655	73,972

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	39	1,103	100	1,242
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	182	182
Investment contract liabilities	–	26,733	–	26,733
Net asset value attributable to unitholders	840	–	–	840
	840	26,733	182	27,755
Total financial liabilities at fair value	879	27,836	282	28,997

13.2.3 Level 3 financial instrument sensitivities

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

Fixed and variable rate securities categorised as Level 3 investments are valued using broker quotes, with the exception of a property investment structure, certain local authority loans and private placements. Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

Level 3 investments in equities and fixed and variable rate income securities include equity and debt holdings in a property investment structure with a value of £1 million (30 June 2017: £1 million; 31 December 2017: £1 million) and £41 million (30 June 2017: £43 million; 31 December 2017: £41 million) respectively.

The valuation is performed for the structure as a whole on a discounted cash flow basis and the total value is allocated to the debt and equity components in order of priority. The valuation is sensitive to the discount rate applied. A decrease in the discount rate of 175bps would increase the value by £5 million (30 June 2017: decrease of 100bps would increase value by £7 million; 31 December 2017: £7 million) whilst an increase of 200bps would decrease the value by £7 million (30 June 2017: £4 million; 31 December 2017: £7 million).

Included within fixed and variable rate income securities are investments in local authority loans and forward local authority loans with a value of £226 million (30 June 2017: £90 million; 31 December 2017: £185 million). These investments are valued using a calculation model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity. The credit spread is derived from a sample broker quote. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £22 million (30 June 2017: increase of 25bps would decrease value by £1 million; 31 December 2017: £6 million) and a decrease of 35bps would increase the value by £25 million (30 June 2017: a decrease of 25bps would increase the value by £1 million; 31 December 2017: a decrease of 25bps would increase the value by £7 million).

Notes to the Condensed Consolidated Interim Financial Statements
continued

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

13.2.3 Level 3 financial instrument sensitivities continued

Also included within fixed and variable rate income securities are private placements and forward private placements, which are loans secured on various assets, with a value of £116 million (30 June 2017: £nil; 31 December 2017: £116 million). The loans are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the spread. An increase of 35bps would decrease the value by £7 million (30 June 2017: £nil; 31 December 2017: increase of 25bps would decrease value by £2 million) and a decrease of 35bps would increase the value by £8 million (30 June 2017: £nil; 31 December 2017: a decrease of 25bps would increase the value by £2 million).

Included within loans and deposits are investments in equity release mortgages with a value of £1,776 million (30 June 2017: £539 million; 31 December 2017: £1,255 million). The loans are valued using a discounted cash flow model, the key inputs to which include demographic assumptions, economic assumptions (including house price index) and the use of a Black-Scholes model for valuation of the no-negative equity guarantee. The no-negative equity guarantee 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 significant sensitivities arise from movements in the yield curve, inflation rate and house prices.

An increase of 100bps in the yield curve would decrease the value of the equity release mortgages by £151 million (30 June 2017: £55 million; 31 December 2017: £108 million) and a decrease of 100bps would increase their value by £166 million (30 June 2017: £63 million; 31 December 2017: £118 million). An increase of 1% in the inflation rate would increase the value by £12 million (30 June 2017: £2 million; 31 December 2017: £7 million) and a decrease of 1% would decrease the value by £22 million (30 June 2017: £6 million; 31 December 2017: £14 million).

An increase of 10% in house prices would increase the value by £7 million (30 June 2017: £1 million; 31 December 2017: £3 million) and a decrease of 10% would decrease the value by £14 million (30 June 2017: £3 million; 31 December 2017: £9 million).

Also included within loans and deposits are investments in commercial real estate loans of £88 million (30 June 2017: £46 million; 31 December 2017: £77 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 proxy basket of asset backed securities. The valuation is sensitive to changes in the discount rate. An increase of 100bps in the discount rate would decrease the value by £6 million (30 June 2017: £2 million; 31 December 2017: £5 million) and a decrease of 100bps would increase the value by £6 million (30 June 2017: £3 million; 31 December 2017: £5 million).

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £121 million (30 June 2017: £168 million; 31 December 2017: £131 million), measured using an internally developed model. The valuation is sensitive to key assumptions of the discount rate and the house price inflation rate. An increase in the discount rate of 1% would decrease the value by £2 million (30 June 2017: £5 million; 31 December 2017: £3 million) and a decrease of 1% would increase the value by £2 million (30 June 2017: £5 million; 31 December 2017: £3 million). An increase of 1% in the house price inflation rate would increase the value by £2 million (30 June 2017: £6 million; 31 December 2017: £3 million) and a decrease of 1% would decrease the value by £2 million (30 June 2017: £6 million; 31 December 2017: £3 million).

Included within financial assets and liabilities are related loans and deposits of £86 million (30 June 2017: £346 million; 31 December 2017: £112 million), borrowings of £29 million (30 June 2017: £65 million; 31 December 2017: £51 million) and derivative liabilities of £16 million (30 June 2017: £243 million; 31 December 2017: £21 million) pertaining to a reinsurance and retrocession arrangement assumed following the acquisition of Abbey Life. These assets and liabilities are valued using a discounted cash flow model that includes valuation adjustments in respect of liquidity and credit risk. At 30 June 2018, the net of these balances was an asset of £41 million (30 June 2017: asset of £38 million; 31 December 2017: asset of £40 million). The valuation is sensitive to movements in the euro interest rate swap curve.

An increase of 100bps in the swap curve would decrease the aggregate value by £3 million (30 June 2017: £3 million; 31 December 2017: £3 million) and a decrease of 100bps would increase the aggregate value by £3 million (30 June 2017: £3 million; 31 December 2017: £3 million).

During 2017, the valuation methodology for each leg of this transaction was revised such that the period covered by the cash flow projections for the valuation of both the derivative liability and loan asset were restricted to the date of the expected contractual novation of the arrangement. The change reduced the fair value of both instruments but did not impact the valuation of the arrangement on a net basis.

Also included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes assumed following the acquisition of Abbey Life with a fair value of £131 million (30 June 2017: £45 million; 31 December 2017: £144 million) and £69 million (30 June 2017: £13 million; 31 December 2017: £77 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the overnight interest swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the net value by £12 million (30 June 2017: £8 million; 31 December 2017: £13 million) and a decrease of 100bps would increase the net value by £17 million (30 June 2017: £8 million; 31 December 2017: £17 million). An increase of 1% in the RPI and CPI inflation rates would increase the net value by £9 million (30 June 2017: £5 million; 31 December 2017: £10 million) and a decrease of 1% would decrease the net value by £10 million (30 June 2017: £5 million; 31 December 2017: £10 million).

13.2.4 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2018

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition:		
Fixed and variable rate income securities	**36**	**45**
Collective investment schemes	**22**	**–**

At 30 June 2017

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition:		
Fixed and variable rate income securities	98	163

At 31 December 2017

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition:		
Derivatives	–	6
Fixed and variable rate income securities	5	138
Collective investment schemes	23	–
Financial liabilities at fair value		
Financial liabilities designated at fair value through profit or loss upon initial recognition		
Derivatives	–	3

The application of the Group's fair value hierarchy classification methodology at an individual security level in particular observations with regard to measures of market depth and bid-ask spreads, resulted in an overall net movement of financial assets from Level 1 to Level 2 in the current period and from Level 2 to Level 1 in the comparative periods.

13.2.5 Movement in Level 3 financial instruments measured at fair value

30 June 2018

	At 1 January 2018 £m	Net (losses)/ gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2018 £m	Unrealised (losses)/ gains on assets held at end of period £m
Financial assets								
Derivatives	144	(10)	–	(1)	–	–	133	(10)
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and deposits	1,444	(2)	580	(72)	–	–	1,950	(2)
Equities	607	45	59	(83)	–	–	628	30
Fixed and variable rate income securities	411	1	44	(9)	–	–	447	2
Collective investment schemes	49	(7)	–	(2)	–	–	40	(6)
	2,511	37	683	(166)	–	–	3,065	24
Total financial assets	2,655	27	683	(167)	–	–	3,198	14

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13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

13.2.5 Movement in Level 3 financial instruments measured at fair value continued

	At 1 January 2018 £m	Net gains in income statement £m	Purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2018 £m	Unrealised gains on liabilities held at end period £m
Financial liabilities								
Derivatives	**100**	**(13)**	**–**	**–**	**–**	**–**	**87**	**(13)**
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	**182**	**–**	**–**	**(32)**	**–**	**–**	**150**	**–**
Total financial liabilities	**282**	**(13)**	**–**	**(32)**	**–**	**–**	**237**	**(13)**

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 2017

	At 1 January 2017 £m	Net (losses)/ gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2017 £m	Unrealised (losses)/gains on assets held at end of period £m
Financial assets								
Derivatives	53	(2)	–	(6)	–	–	45	(1)
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and deposits	812	(4)	169	(45)	–	–	932	(4)
Equities	671	12	45	(96)	–	(1)	631	13
Fixed and variable rate income securities	146	24	73	(34)	–	(2)	207	31
Collective investment schemes	89	(18)	5	(17)	20	–	79	(14)
	1,718	14	292	(192)	20	(3)	1,849	26
Total financial assets	1,771	12	292	(198)	20	(3)	1,894	25

	At 1 January 2017 £m	Net (gains)/ losses in income statement £m	Purchases £m	Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2017 £m	Unrealised (gains)/losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	272	(12)	–	(4)	–	–	256	(12)
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	270	1	–	(38)	–	–	233	1
Total financial liabilities	542	(11)	–	(42)	–	–	489	(11)

31 December 2017

	At 1 January 2017 £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 2017 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets								
Derivatives	53	98	–	(7)	–	–	144	93
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and deposits	812	(223)	937	(82)	–	–	1,444	(223)
Equities	671	55	53	(171)	–	(1)	607	50
Fixed and variable rate income securities	146	8	281	(18)	–	(6)	411	5
Collective investment schemes	89	(18)	5	(46)	19	–	49	(4)
	1,718	(178)	1,276	(317)	19	(7)	2,511	(172)
Total financial assets	1,771	(80)	1,276	(324)	19	(7)	2,655	(79)

	At 1 January 2017 £m	Net gains in income statement £m	Purchases £m	Sales/ Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2017 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	272	(172)	–	–	–	–	100	(172)
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	270	(23)	–	(65)	–	–	182	(23)
Total financial liabilities	542	(195)	–	(65)	–	–	282	(195)

Notes to the Condensed Consolidated Interim Financial Statements
continued

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

	Half year ended 30 June 2018 £m	Half year ended 30 June 2017 £m	Year ended 31 Dec 2017 £m
Loss for the period before tax	**(42)**	(69)	(7)
Non-cash movements in profit for the period before tax			
Fair value (gains)/losses on:			
Investment property	**(24)**	(17)	(9)
Financial assets	**1,141**	(1,301)	(2,896)
Change in fair value of borrowings	**3**	7	(23)
Amortisation of intangible assets	**57**	54	126
Change in present value of future profits	**(5)**	(7)	(5)
Change in unallocated surplus	**21**	77	46
Share-based payment charge	**4**	4	8
Interest expense on borrowings	**67**	64	132
Premium paid on partial redemption of £300 million unsecured bond	**–**	–	25
Net interest expense on Group defined benefit pension scheme liability/asset	**3**	6	11
Other costs of pension schemes	**3**	2	5
Decrease in investment assets	**733**	1,908	4,411
(Increase)/decrease in reinsurance assets	**(201)**	361	1,154
Decrease in insurance contract and investment contract liabilities	**(1,413)**	(859)	(1,933)
Decrease in deposits received from reinsurers	**(20)**	(18)	(24)
(Decrease)/increase in obligation for repayment of collateral received	**(386)**	(101)	338
Net (increase)/decrease in working capital	**(306)**	205	(113)
Other items:			
Contributions to defined benefit pension schemes	**(23)**	(40)	(90)
Cash (utilised)/generated by operations	**(388)**	276	1,156

15. RELATED PARTY TRANSACTIONS
The nature of the related party transactions of the Group has not changed from those referred to in the Group's consolidated financial statements for the year ended 31 December 2017.

There were no transactions with related parties during the half year ended half year ended 30 June 2018 which have had a material effect on the results or financial position of the Group.

16. CONTINGENT LIABILITIES
In the normal course of business the Group is exposed to certain legal issues, which 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.

17. EVENTS AFTER THE REPORTING PERIOD
On 10 July 2018, the Group issued 183,581,978 shares following a rights issue undertaken in connection with the acquisition of Standard Life Assurance, where 7 rights issue shares were issued at 518 pence per share for every 15 existing PGH shares held. The rights issue raised gross proceeds of £951 million and proceeds, net of deduction of commission and expenses, were £932 million.

On 22 August 2018, the Board declared an interim dividend per share of 22.6p for the half year ended 30 June 2018 (half year ended 30 June 2017: 25.1p). The cost of this dividend has not been recognised as a liability in the condensed consolidated interim financial statements for the half year ended 30 June 2018 and will be charged to the statement of consolidated changes in equity when paid.

On 2 September 2009, the Group issued 5 million warrants over its shares to certain of its lenders. On 23 August 2018, the Group will redeem and cancel all outstanding warrants at the value of the warrants as shown in the Group's 2017 Annual Report and Accounts.

Additional Life Company Asset Disclosures

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

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

30 June 2018

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	**2,042**	**2,442**	**4,016**	**2,482**	**10,982**
Debt securities – gilts	**2,830**	**413**	**6,129**	**946**	**10,318**
Debt securities – bonds	**7,164**	**1,617**	**5,879**	**3,001**	**17,661**
Equity securities	**157**	**51**	**5,177**	**16,254**	**21,639**
Property investments	**105**	**47**	**829**	**614**	**1,595**
Other investments[4]	**2,117**	**113**	**1,239**	**6,022**	**9,491**
At 30 June 2018	**14,415**	**4,683**	**23,269**	**29,319**	**71,686**
Cash and cash equivalents in Group holding companies					**1,039**
Cash and financial assets in other Group companies					**415**
Financial assets held by the non-controlling interest in consolidated collective investment schemes					**673**
Total Group consolidated assets					**73,813**
Comprised of:					
Investment property					**615**
Financial assets					**72,261**
Cash and cash equivalents					**2,179**
Derivative liabilities					**(1,242)**
					73,813

1 Includes assets where shareholders of the life companies bear the investment risk.
2 Includes assets where policyholders bear most of the investment risk.
3 This information is presented on a look through basis to underlying funds where available.
4 Includes equity release mortgages of £1,776 million, other loans of £186 million, net derivative assets of £1,011 million, reinsurers' share of investment contracts of £6,009 million and other investments of £509 million.

31 December 2017

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	1,906	2,554	4,312	2,355	11,127
Debt securities – gilts	3,059	470	6,461	963	10,953
Debt securities – bonds	7,362	1,627	6,166	3,049	18,204
Equity securities	158	52	5,350	16,845	22,405
Property investments	112	52	847	651	1,662
Other investments[1]	1,745	206	1,547	6,103	9,601
At 31 December 2017	14,342	4,961	24,683	29,966	73,952
Cash and cash equivalents in Group holding companies					535
Cash and financial assets in other Group companies					456
Financial assets held by the non-controlling interest in consolidated collective investment schemes					1,012
Total Group consolidated assets					75,955
Comprised of:					
Investment property					612
Financial assets					74,340
Cash and cash equivalents					2,245
Derivative liabilities					(1,242)
					75,955

1 Includes equity release mortgages of £1,255 million, policy loans of £12 million, other loans of £199 million, net derivative assets of £1,563 million, reinsurers' share of investment contracts of £6,085 million, and other investments of £487 million.

Additional Life Company Asset Disclosures
continued

The following table analyses by type the debt securities of the life companies:

30 June 2018

Analysis by type of debt securities	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
Gilts	**2,830**	**413**	**6,129**	**946**	**10,318**
Other government and supranational[2]	**1,144**	**323**	**2,076**	**1,176**	**4,719**
Corporate – financial institutions	**2,792**	**442**	**1,653**	**212**	**5,099**
Corporate – other	**2,711**	**163**	**1,520**	**1,577**	**5,971**
Asset backed securities ('ABS')	**517**	**689**	**630**	**36**	**1,872**
At 30 June 2018	**9,994**	**2,030**	**12,008**	**3,947**	**27,979**

2 Includes debt issued by governments, public and statutory bodies, government backed institutions and supranationals.

31 December 2017

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	3,059	470	6,461	963	10,953
Other government and supranational	1,163	333	2,109	871	4,476
Corporate – financial institutions	2,812	443	1,902	187	5,344
Corporate – other	2,810	161	1,550	1,962	6,483
Asset backed securities ('ABS')	577	690	605	29	1,901
At 31 December 2017	10,421	2,097	12,627	4,012	29,157

The following table sets out a breakdown of the life companies' sovereign and supranational debt security holdings by country:

30 June 2018

Analysis of sovereign and supranational debt security holdings by country	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
UK	**3,212**	**461**	**6,371**	**975**	**11,019**
Supranationals	**580**	**89**	**357**	**68**	**1,094**
USA	**–**	**3**	**105**	**249**	**357**
Germany	**57**	**64**	**450**	**114**	**685**
France	**28**	**31**	**138**	**81**	**278**
Netherlands	**27**	**19**	**107**	**21**	**174**
Italy	**47**	**–**	**–**	**45**	**92**
Spain	**–**	**–**	**–**	**49**	**49**
Other – non-Eurozone	**22**	**57**	**629**	**487**	**1,195**
Other – Eurozone	**1**	**12**	**48**	**33**	**94**
At 30 June 2018	**3,974**	**736**	**8,205**	**2,122**	**15,037**

31 December 2017

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	3,413	519	6,722	971	11,625
Supranationals	606	89	359	25	1,079
USA	–	3	122	346	471
Germany	78	72	507	74	731
France	26	25	113	62	226
Netherlands	29	20	117	11	177
Italy	55	–	–	34	89
Spain	–	–	–	37	37
Other – non-Eurozone	7	66	592	258	923
Other – Eurozone	8	9	38	16	71
At 31 December 2017	4,222	803	8,570	1,834	15,429

The following table sets out a breakdown of the life companies' financial institution corporate debt security holdings by country:

30 June 2018

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**1,460**	**99**	**812**	**111**	**2,482**
USA	**559**	**57**	**360**	**41**	**1,017**
Germany	**80**	**7**	**38**	**4**	**129**
France	**105**	**34**	**49**	**9**	**197**
Netherlands	**159**	**49**	**91**	**12**	**311**
Italy	**6**	**–**	**2**	**1**	**9**
Spain	**3**	**–**	**6**	**2**	**11**
Other – non-Eurozone	**396**	**180**	**279**	**21**	**876**
Other – Eurozone	**24**	**16**	**16**	**11**	**67**
At 30 June 2018	**2,792**	**442**	**1,653**	**212**	**5,099**

31 December 2017

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,428	83	827	106	2,444
USA	598	47	425	25	1,095
Germany	72	9	47	3	131
France	100	34	80	4	218
Netherlands	190	66	186	28	470
Italy	7	–	7	–	14
Spain	3	–	16	–	19
Other – non-Eurozone	389	182	283	14	868
Other – Eurozone	25	22	31	7	85
At 31 December 2017	2,812	443	1,902	187	5,344

The following table sets out a breakdown of the life companies' corporate – other debt security holdings by country:

30 June 2018

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**1,154**	**72**	**764**	**572**	**2,562**
USA	**509**	**34**	**217**	**114**	**874**
Germany	**246**	**47**	**148**	**30**	**471**
France	**215**	**4**	**116**	**22**	**357**
Netherlands	**6**	**–**	**13**	**7**	**26**
Italy	**44**	**1**	**35**	**6**	**86**
Ireland	**6**	**–**	**–**	**–**	**6**
Spain	**37**	**1**	**13**	**4**	**55**
Other – non-Eurozone	**391**	**4**	**182**	**780**	**1,357**
Other – Eurozone	**103**	**–**	**32**	**42**	**177**
At 30 June 2018	**2,711**	**163**	**1,520**	**1,577**	**5,971**

Additional Life Company Asset Disclosures
continued

31 December 2017

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,248	66	783	747	2,844
USA	561	31	200	72	864
Germany	241	43	142	25	451
France	219	16	139	19	393
Netherlands	5	–	15	3	23
Italy	47	1	32	5	85
Ireland	5	–	–	8	13
Spain	46	1	20	2	69
Other – non-Eurozone	345	3	185	1,041	1,574
Other – Eurozone	93	–	34	40	167
At 31 December 2017	2,810	161	1,550	1,962	6,483

The following table sets out a breakdown of the life companies' ABS holdings by country:

30 June 2018

Analysis of ABS holdings by country	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
UK	**472**	**497**	**518**	**35**	**1,522**
USA	**–**	**–**	**2**	**–**	**2**
Germany	**–**	**18**	**4**	**–**	**22**
France	**–**	**27**	**9**	**–**	**36**
Netherlands	**8**	**97**	**48**	**1**	**154**
Ireland	**28**	**–**	**26**	**–**	**54**
Other – non-Eurozone	**9**	**12**	**5**	**–**	**26**
Other – Eurozone	**–**	**38**	**18**	**–**	**56**
At 30 June 2018	**517**	**689**	**630**	**36**	**1,872**

31 December 2017

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	507	523	527	28	1,585
USA	–	–	2	–	2
Germany	–	9	4	–	13
France	15	45	–	–	60
Netherlands	9	76	23	1	109
Ireland	36	–	26	–	62
Other – non-Eurozone	10	5	5	–	20
Other – Eurozone	–	32	18	–	50
At 31 December 2017	577	690	605	29	1,901

The following table sets out the credit rating analysis of the debt portfolio:

30 June 2018

Credit rating analysis of debt portfolio	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
AAA	**1,137**	**873**	**1,549**	**617**	**4,176**
AA	**4,007**	**734**	**6,768**	**1,034**	**12,543**
A	**3,173**	**328**	**1,151**	**396**	**5,048**
BBB	**1,462**	**32**	**1,659**	**375**	**3,528**
BB	**19**	**2**	**186**	**65**	**272**
B and below	**–**	**–**	**83**	**30**	**113**
Non-rated	**196**	**61**	**612**	**1,430**	**2,299**
At 30 June 2018	**9,994**	**2,030**	**12,008**	**3,947**	**27,979**

31 December 2017

Credit rating analysis of debt portfolio	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
AAA	1,162	867	1,568	549	4,146
AA	4,169	747	7,055	995	12,966
A	3,154	325	1,264	280	5,023
BBB	1,652	33	1,716	282	3,683
BB	49	2	187	23	261
B and below	–	1	101	1	103
Non-rated	235	122	736	1,882	2,975
At 31 December 2017	10,421	2,097	12,627	4,012	29,157

Additional Capital Disclosures

CAPITAL MANAGEMENT FRAMEWORK

The Group's capital management framework is designed to achieve the following objectives:

- to provide appropriate security for policyholders and meet all regulatory capital requirements under the Solvency II regime while not retaining unnecessary excess capital;
- to ensure sufficient liquidity to meet obligations to policyholders and other creditors;
- to optimise the Fitch Rating's financial leverage ratio to maintain an investment grade credit rating;
- to support the Group's progress in putting in place a new UK-registered holding company for the Group; and
- to maintain a stable and sustainable dividend policy.

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

Further details of the Group's capital management framework is described in the Business Review section on pages 3 to 8 of the Interim Report.

This section provides additional analysis of PGH's Solvency II Own Funds, SCR and MCR.

PGH SOLVENCY II SURPLUS

The estimated PGH surplus at 30 June 2018 is £2.3 billion (31 December 2017: £1.8 billion, estimated).

	30 June 2018 Estimated £bn	31 December 2017 Estimated £bn
Own Funds	**7.0**	6.6
SCR	**(4.7)**	(4.8)
Surplus	**2.3**	1.8

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 loses before repayment to the holder until all obligations to policyholders and other beneficiaries have been met ('subordination').

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

	30 June 2018 Estimated £bn	31 December 2017 Estimated £bn
Tier 1	**5.4**	5.0
Tier 2	**1.0**	1.0
Tier 3	**0.6**	0.6
Total Own Funds	**7.0**	6.6

PGH's Tier 1 capital accounts for 77% (31 December 2017: 76%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

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

Tier 3 items include the Tier 3 subordinated notes of £0.4 billion (31 December 2017: £0.5 billion) and the deferred tax asset of £0.2 billion (31 December 2017: £0.1 billion).

BREAKDOWN OF SCR

An analysis of the undiversified SCR of PGH is presented below:

	30 June 2018 %	31 December 2017 %
Longevity	**27**	30
Credit	**16**	15
Persistency	**13**	14
Interest rates	**11**	7
Operational	**8**	9
Swap spreads	**–**	3
Other market risks	**18**	15
Other non-market risks	**7**	7
	100%	100%

BREAKDOWN OF SHAREHOLDER CAPITAL POSITION

The shareholder capital position is an adjusted PGH position which excludes Own Funds and the associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme of £1.8 billion as at 30 June 2018 (31 December 2017: £2.0 billion).

The shareholder capital position is further analysed between the contributions of the life companies and holding companies as follows:

	30 June 2018 Estimated £bn	31 December 2017 Estimated £bn
Own Funds	**5.2**	4.6
Phoenix Life	**4.0**	4.0
Holding company	**1.2**	0.6
SCR	**(2.9)**	(2.8)
Phoenix Life	**(2.4)**	(2.4)
Holding company	**(0.5)**	(0.4)
Surplus	**2.3**	1.8
Phoenix Life	**1.6**	1.6
Holding Company	**0.7**	0.2

Own Funds within Phoenix Life of £4.0 billion (31 December 2017: £4.0 billion) comprise £0.9 billion (31 December 2017: £0.8 billion) in the shareholders' funds, £2.0 billion (31 December 2017: £2.1 billion) in the non-profit funds, £0.6 billion (31 December 2017: £0.5 billion) in the supported with-profit funds and future shareholder transfers of £0.5 billion (31 December 2017: £0.6 billion).

Own Funds within the holding companies of £1.2 billion (31 December 2017: £0.6 billion) principally comprises cash and other financial assets held in the holding companies, net of shareholder borrowings which do not qualify as capital under the Solvency II regulations.

MINIMUM CAPITAL REQUIREMENTS

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.

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 EUR 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.

PGH's MCR at 30 June 2018 is £1.1 billion (31 December 2017: £1.2 billion) which is a sum of the underlying insurance companies' MCRs.

PGH's eligible Own Funds to cover the MCR is £6.2 billion (31 December 2017: £5.3 billion) leaving an excess of eligible Own Funds over MCR of £5.1 billion (31 December 2017: £4.1 billion), which translates to an MCR coverage ratio of 563% (31 December 2017: 448%).

The eligible Own Funds to cover the MCR is subject to quantitative limits as shown below:

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

	30 June 2018 Estimated £bn	31 December 2017 Estimated £bn
Eligible Own Funds to cover MCR		
Tier 1	**6.0**	5.1
Tier 2	**0.2**	0.2
Total eligible Own Funds to cover MCR	**6.2**	5.3

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 on page 3.

APM	Definition	Why is this measure used?	Reconciliation to financial statements
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of 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 consolidated statement of cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on page 3 and a breakdown of the Groups cash position by type of entity is provided in the additional life company asset disclosures note on page 45.
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 4.1 to the 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 7 and in the consolidated interim financial statements on page 15.
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 6 and the additional capital disclosures note on page 50.
Phoenix Life Free Surplus	The Solvency II surplus of the life companies that is in excess of their Board approved capital management policies.	This figure provides a view of the level of surplus capital in the Life Companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section page 6 for further analysis of the solvency positions of the Life Companies.

Shareholder Information

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') was held on 2 May 2018 at 10.00am (BST).

The voting results for our 2018 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. Shareholders may request a hard copy of this Interim Report from our registrar and if you have any further queries in respect of your shareholding, please contact them directly using the contact details set out below.

REGISTRAR DETAILS

Computershare Investor Services (Cayman) Limited
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Hilgrove Street
St Helier
Jersey, JE1 1ES

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Fax number: +44 (0) 370 703 6101
Shareholder helpline email address: info@computershare.co.je

SHARE PRICE

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

GROUP FINANCIAL CALENDAR FOR 2018

Announcement of unaudited six months' Interim Results	23 August 2018

2018 INTERIM DIVIDEND

Ex-dividend date	6 September 2018
Record date	7 September 2018
Interim 2018 dividend payment date	1 October 2018

Forward-Looking Statements

The 2018 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 we have estimated. Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to:

- domestic and global economic and business conditions;
- asset prices;
- market-related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on the Group's capital maintenance requirements;
- the political, legal and economic effects of the UK's vote to leave the European Union;
- the impact of inflation and deflation;
- market competition;
- changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates);
- the timing, impact and other uncertainties of future acquisitions 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 2018 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2018 Interim Report or any other forward-looking statements it may make or publish.

The 2018 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 2018 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
www.thephoenixgroup.com/investor-relations

NEWS AND UPDATES

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

To sign up visit
www.thephoenixgroup.com/site-services/e-mail-alerts.aspx

PAPER INFORMATION

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