CASH
RESILIENCE
GROWTH

A SUSTAINABLE PHOENIX

PHOENIX GROUP

INTERIM REPORT 2019

PHOENIX IS THE LARGEST LIFE AND PENSIONS CONSOLIDATOR IN EUROPE

HIGHLIGHTS

Half year ended 30 June 2019

- Strong performance against all financial targets and expectation to be towards the upper end of £600 million – £700 million cash generation target range
- On track to deliver £1.2bn synergy targets from the transition of Standard Life Assurance businesses
- New business written across our Heritage and Open businesses will deliver incremental long-term cash generation of £250 million
- Brexit preparations complete
- Met or exceeded all customer service metrics

KEY PERFORMANCE INDICATORS

£287m

OPERATING COMPANIES' CASH GENERATION

APM REM

£3.0bn

PGH SOLVENCY II SURPLUS (ESTIMATED)

160%

PGH SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

APM

23.4p

INTERIM DIVIDEND PER SHARE

£325m

OPERATING PROFIT

APM

OTHER PERFORMANCE INDICATORS

£39m

IFRS PROFIT AFTER TAX

£116m

NEW BUSINESS CONTRIBUTION

APM

£245bn

ASSETS UNDER ADMINISTRATION

APM

23%

FINANCIAL LEVERAGE RATIO[1]

APM

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

All amounts throughout the report marked with 'APM' are alternative performance measures.

Read more on **P56**

1 As calculated by Phoenix using Fitch Ratings stated methodology.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

Phoenix has enjoyed a successful first half year in 2019. We delivered across all of our strategic priorities with strong performance against our financial targets; and are progressing the transition programme following the acquisition of the Standard Life Assurance businesses. We also completed our preparations for Brexit with a Part VII transfer of our European branch business to Standard Life International.

We remain focused on bringing sustainability to our business through a range of growth opportunities whilst continuing to deliver long-term predictable cash generation and maintaining a resilient solvency position.

Consistent with the Group's stable and sustainable dividend policy the Board has declared a 2019 interim dividend of 23.4p per share.

FINANCIAL TARGETS

The Group generated £287 million of cash in the period, net of a £250 million capital injection into our Irish subsidiary to prepare for Brexit. We therefore expect to be towards the upper end of our £600 to £700 million 2019 full year cash generation target range.

Our Solvency II balance sheet remains resilient with a surplus of £3.0 billion and a Shareholder Capital Coverage Ratio of 160%. We have also delivered an IFRS operating profit of £325 million.

TRANSITION PROGRAMME

We remain on track to deliver our £1.2 billion total synergy target and continue to make strong progress across all aspects of our transition programme following the acquisition of the Standard Life Assurance businesses. Having achieved £115 million of capital synergies in the first half of the year, we have now delivered 85% of our £720 million target. The capital synergies delivered in the first half of the year consist primarily of benefits from the internal restructuring of the Group.

Our three phase transition programme to deliver the combined Group's end state operating model is advancing as planned.

Phase 1, which relates to Head Office functions such as HR, Legal and Risk, will be largely complete by the end of 2019. This phase also includes the roll out of a Group-wide Risk Management Framework.

Phase 2, which comprises the transition of finance and actuarial systems is on track to complete by end 2020. In this phase we will harmonise the Group's capital framework and merge our two Solvency II Internal Models.

Phase 3 will deliver a hybrid end state customer and technology operating model for both the UK Heritage and UK Open segments. The end state operating model will be designed to support further growth of the Open business and respond to the ever evolving landscape whilst also providing a versatile platform for future consolidation. Implementation will take 2-3 years.

To date we have delivered £21 million of cost savings against a target of £75 million per annum. In addition to this, we have delivered £17 million of one-off cost synergies against a target of £30 million.

NEW BUSINESS

New business brings sustainability to Phoenix. New business written during the first half of 2019 will generate £250 million of incremental long-term cash generation, circa 1.5 times the interim dividend.

The Bulk Purchase Annuity ('BPA') market was buoyant in the first half of 2019 and Phoenix competed well. During this period, the Group completed a £0.5 billion liability BPA transaction with the Trustees of the Marks and Spencer Pension Scheme which will deliver £90 million of incremental long-term cash generation.

New business through the Strategic Partnership with Standard Life Aberdeen plc brings improved sustainability to our long-term cash generation.

The UK Open business segment performance was driven by strong workplace gross inflows following the auto-enrolment increases in 2018 and 2019. However, it was a more challenging period for our Wrap products, due to a tail off in Defined Benefit to Defined Contribution pension scheme transfers and Brexit related market uncertainty, the latter also affecting Europe with flows down year on year.

In total, our UK Open and European segments delivered gross new business inflows of £3.5 billion, adding £160 million of long-term organic cash generation.

Furthermore, the Group completed a buy-in of the remaining £1.1 billion PGL Pension Scheme liabilities. This action was already anticipated in our long-term cash generation guidance but will be an enabler to additional future management actions, for example illiquid asset sourcing.

IMPROVING CUSTOMER OUTCOME

We place customers at the heart of what we do and are committed to delivering a high level of customer service.

We monitor our performance using a number of metrics and have met or exceeded all of our targets for the first half of this year.

"PHOENIX HAS A RANGE OF GROWTH OPPORTUNITIES TO INCREASE THE SUSTAINABILITY OF ITS LONG-TERM CASH GENERATION"

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

We continue to work with our outsource partner, Diligenta, to improve the digital journey of legacy-Phoenix customers. We granted access to a further 1.2 million Phoenix Life customers in the period, taking the total number of customers with access to "My Phoenix" to 2.1 million.

Within the Standard Life business we have implemented new 'voice of the customer' technology to improve the quality and speed of customer feedback through telephony and digital journeys and extended our digital functionalities to enable customers in drawdown with a regular income to make additional one-off withdrawals.

As part of our 'Engaging the Unengaged' programme we contacted one million life and protection customers to remind them of the cover they hold, and to date have reconnected a total of £14.2 million with circa 2,000 customers that had lost contact with their policies.

Standard Life Assurance is one of the first providers to receive authorisation from the Pensions Regulator for two master trust schemes which together look after over 240,000 customers and £5 billion of assets under administration. Our master trusts, which are among the biggest in the UK, offer a strong pension proposition for members and provide a range of solutions to employers wishing to streamline their pension processes. This approval enables us to access this rapidly growing market.

On 23 July, the FCA announced the outcome of its enforcement action against Standard Life Assurance Limited following the industry-wide annuity review. The resulting fine of circa £31 million will be covered in full by the indemnity from Standard Life Aberdeen plc put in place on Phoenix's acquisition of this business. We are focused on putting right the issues identified and have already been in contact with affected customers as a part of the programme of redress which we expect to complete by the end of the year.

GROWTH

The drivers of consolidation in the life insurance sector such as trapped capital, increasing regulatory burdens and specialist skillset gaps are increasingly evident. We continue to see significant consolidation opportunities in the UK, with an estimated £390 billion of Heritage assets. Concurrently, the nascent German and Irish consolidation markets are growing.

Phoenix's strategic positioning is clear and we have strong access to funding through a combination of own resources and a new £1.25 billion revolving credit facility. With our scale, specialist skill set and financial strength, Phoenix is at the forefront of the UK consolidation market with optionality to extend its strategy into Germany and Ireland and deliver our vision of being Europe's Leading Life Consolidator.

BOARD CHANGES

The Board would like to express its gratitude to Barry O'Dwyer for his contribution following the acquisition of the Standard Life Assurance businesses. Barry stepped down from the Board in June following his appointment as the Group Chief Executive of Royal London.

We welcome Mike Tumilty who will be joining the Board on 1 September as a Non-Executive Director replacing Barry as a director nominated by Standard Life Aberdeen plc under the terms of the Relationship Agreement. Mike brings substantial skills and experience relevant to our strategy and we look forward to working with him in the future.

CORPORATE RESPONSIBILITY

We continue to progress our corporate and social responsibility agenda.

In June, Phoenix became a signatory to the Scottish Business Pledges. This is a voluntary code consisting of nine pledges for businesses to follow. Phoenix already meets all nine pledges and we intend to go well beyond the minimum requirements in areas including workforce engagement, our investment in youth and our commitment to a gender balanced workforce.

We continue to diversify our overall investment portfolio by making green investments. An example of this in the period was a £50 million private placement with A2Dominion Housing Group ('A2Dominion'). A2Dominion will use these funds to refinance maturing secured debt and progress new opportunities to provide more social and affordable housing.

OUTLOOK

Whilst we remain focused on the successful transition of the Standard Life Assurance businesses we look forward to pursuing new growth opportunities in the second half of 2019 to create value for all stakeholders and bring sustainability to our long-term cash generation.

I would like to take this opportunity to thank colleagues throughout the Group for their hard work during the first half of 2019 on delivering the Group's strategic priorities and for their continued focus on building a more sustainable Phoenix.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

6 August 2019

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') section on page 56 for further details of this measure.

Maintaining strong cash flow delivery underpins debt servicing and repayments as well as 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 generated by the operating companies during the period was £287 million (HY18: £349 million).

Cash generation is reported net of a £250 million cash remittance into the Group's Irish domiciled subsidiary, Standard Life International. This capital injection preceded a Part VII transfer of the Standard Life Assurance Limited Irish, German and Austrian policies to Standard Life International, completed in March 2019 as part of preparations to ready the business for Brexit.

Recurring cash outflows

The operating expenses of £19 million (HY18: £19 million) are in line with prior period and principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Pension scheme contributions of £23 million (HY18: £23 million) are made on a monthly basis and comprise £20 million for the Pearl Group Scheme and £3 million for the Abbey Life Scheme.

Debt interest of £34 million (HY18: £10 million) increased as a result of the cash settlement of the semi-annual coupon on the £500 million Tier 1 bond issued in April 2018 and the annual coupon on the €500 million Tier 2 bond issued in September 2018. A semi-annual coupon on the US$500 million Tier 2 bond was also settled in the period.

The remaining cash interest payments on the Group's outstanding shareholder debt are expected to be settled in the second half of the year.

Non-recurring net cash outflows

Non-recurring net cash outflows of £41 million (HY18: £126 million) principally comprises £31 million of recharged staff costs and Group expenses associated with corporate related projects, including £4 million of external costs related to the transition of the acquired Standard Life Assurance businesses. It also includes a further £4 million of costs related to the separation of those businesses from Standard Life Aberdeen plc ('SLA plc') and £3 million of cash paid to close out derivative instruments entered into by the holding companies to hedge the Group's exposure to currency risk.

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 £m
Cash and cash equivalents at 1 January	**346**	535
Operating companies' cash generation:		
Cash receipts from Phoenix Life[1]	**358**	349
Cash receipts from Standard Life Assurance[1]	**179**	–
Cash remittances to Standard Life International	**(250)**	–
Net cash receipts	**287**	349
Uses of cash:		
Operating expenses	**(19)**	(19)
Pension scheme contributions	**(23)**	(23)
Debt interest	**(34)**	(10)
Total recurring cash outflows	**(76)**	(52)
Non-recurring cash outflows	**(41)**	(126)
Uses of cash before debt repayments and shareholder dividend	**(117)**	(178)
Shareholder dividend	**(169)**	(99)
Total uses of cash	**(286)**	(277)
Debt issuance (net of fees)	**–**	494
Support of BPA activity	**(32)**	(62)
Cash and cash equivalents at 30 June	**315**	1,039

"THE GROUP IS ON TRACK TO DELIVER ITS FINANCIAL TARGETS SET FOR THE YEAR."

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR AND GROUP DIRECTOR, SCOTLAND

£287m

OPERATING COMPANIES' CASH GENERATION

APM

REM

Notes:
1 Includes £43 million and £47 million received by the holding companies in respect of tax losses surrendered to Phoenix Life and Standard Life Assurance respectively (HY18:£14 million – Phoenix Life).

All amounts in the Business Review section marked with 'APM' are alternative performance measures. See 'Alternative Performance Measures' section on page 56 for further details of these measures.

All amounts in the Business Review section marked with 'REM' are KPIs linked to executive remuneration.

Non-recurring cash outflows of £126 million for HY18 included £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. It also included a further £21 million of collateral posted on other Group hedging positions and net other corporate costs.

Shareholder dividend

The shareholder dividend of £169 million represents the payment of the 2018 final dividend in May.

Debt issuance (net of fees)

The £494 million debt issuance in HY18 comprised the proceeds of the Tier 1 bond issuance of £500 million completed in April 2018, net of associated fees.

Support of Bulk Purchase Annuity ('BPA') activity

£32 million (HY18: £62 million) of funding has been provided to the life companies to support BPA new business (based on the assets received as premium from the scheme on Day 1).

Illustrative stress testing[1]	1 January 2019 to 31 December 2023 £bn
Base case five-year target	**3.8**
Following a 20% fall in equity markets	**3.8**
Following a 15% fall in property values	**3.6**
Following a 60bps interest rates rise[2]	**3.9**
Following a 80bps interest rates fall[2]	**3.6**
Following credit spread widening[3]	**3.6**
Following 6% decrease in annuitant mortality rates[4]	**3.3**
Following a 10% increase in assurance mortality rates	**3.7**
Following a 10% change in lapse rates[5]	**3.4**

Target cash flows

The Group has a short-term target of £600 to £700 million for 2019 (net of the £250 million cash remittance into Standard Life International as part of Brexit preparations) and it expects to be towards the upper end of this 2019 cash generation target. The resilience of the £3.8 billion cash generation target set by the Group for the five-year period 2019 to 2023 is demonstrated by the illustrative stress testing in the table above.

Expected cash flows after 2024

There is an expected £8.2 billion of cash to emerge from 2024. This does not include any management actions from 2024 onwards or any additional value from future new business from the Group's Open business and BPA transactions.

Notes:
1 Assumes stress occurs on 1 July 2019.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 120bps spread widening across ratings and includes an allowance for 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.

ASSETS UNDER ADMINISTRATION AND NEW BUSINESS

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

AUA provides an indication of the potential earnings capability of the Group arising from its insurance and investment business.

A reconciliation from the Group's IFRS condensed consolidated statement of financial position to the Group's AUA is provided on page 53.

Please see the Alternative Performance Measure ('APM') section on page 56 for further details of this measure.

GROUP AUA

Group AUA increased to £244.7 billion in the period (2018: £226.3 billion) benefiting from positive market movements, notably strong performance in global equity markets during the first half of the year; partly offset by net outflows from the Group's UK Heritage and European businesses.

UK HERITAGE NET FLOWS

UK Heritage net outflows of £2.6 billion (HY18 pro forma[1]: £3.3 billion) reflects policyholder outflows on claims such as maturities, surrenders and annuities in payment, net of total premiums received in the period from in-force contracts.

It includes £1.1 billion of inflows arising from the Group's buy-in of the remaining pensioner liabilities of the PGL Pension Scheme and £0.5 billion of new business inflows arising from the BPA transaction completed in April.

UK OPEN FLOWS

The UK Open segment experienced gross inflows of £4.8 billion (HY18 pro forma[1]: £5.5 billion) during the period, of which £3.1 billion (HY18 pro forma[1]: £4.0 billion) was received in respect of new contracts transacted in the period.

Strong gross inflows in the Workplace product of £2.3 billion (HY18 pro forma[1]: £1.9 billion) benefitted from statutory pensions auto-enrolment increases. Gross inflows in the Wrap product of £1.5 billion (HY18 pro forma[1]: £2.3 billion) were adversely impacted by challenging market conditions, notably market uncertainty arising from Brexit combined with a decline in transfers from defined benefit to defined contribution pension schemes. Retail products experienced gross inflows of £1.0 billion (HY18 pro forma[1]: £1.1 billion).

Outflows for the UK Open business were £4.0 billion (HY18 pro forma[1]: £3.4 billion) mainly due to run-off, resulting in net inflows of £0.8 billion (HY18 pro forma[1]: £2.1 billion).

EUROPE NET FLOWS

The movement in AUA includes a small net outflow of £0.2 billion (HY18 pro forma[1]: £0.2 billion) from the European business.

OTHER MOVEMENTS INCLUDING MARKETS

AUA increased by £20.4 billion as a result of other movements, largely driven by interest rate falls and the impact of strong global equity market performance in the first half of the year.

NEW BUSINESS CONTRIBUTION

In respect of our Open and Europe business segments, we monitor new business contribution as the Group's measure of the future value delivered through the writing of new business.

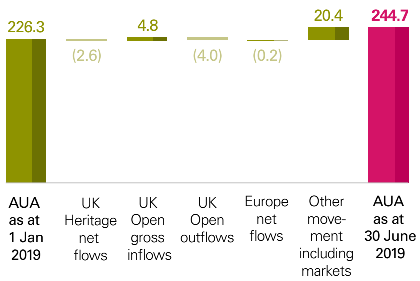
New business contribution represents the increase in Solvency II shareholder Own Funds (net of tax) arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net of 'Day 1' acquisition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

New business contribution for the period was £116 million (HY18 pro forma[1]: £100 million) (net of tax). This includes £112 million from the Group's UK Open business driven in part by a £50 million positive impact of increases in statutory pensions auto-enrolment within Workplace and £4 million from the European business.

LONG-TERM CASH GENERATION

As a result of new business transacted in the period, long-term cash generation is expected to increase by £250 million, comprising £160 million from the UK Open and European business segments and £90 million from BPA transactions.

MOVEMENT IN AUA (£bn)



£245bn

ASSETS UNDER ADMINISTRATION

APM

£116m

NEW BUSINESS CONTRIBUTION

APM

Note:
1 The pro forma position assumes the acquisition of the Standard Life Assurance businesses took place on 1 January 2018.

CAPITAL MANAGEMENT

PGH PLC 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 plc's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance contract liabilities 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 ('Phoenix Internal Model') to assess capital requirements, the scope of which was extended to include the acquired AXA Wealth and Abbey Life businesses in March 2017 and March 2018 respectively.

The Standard Life Assurance businesses determine their capital requirements in accordance with an approved Internal Model ('Standard Life Internal Model'), which was in place prior to the acquisition of the Standard Life Assurance businesses. The one exception to this is Standard Life International, the Group's Irish subsidiary, which remains on Standard Formula. As a result, the Group currently uses a Partial Internal Model to calculate Group SCR, aggregating outputs from the existing Phoenix Internal Model, the Standard Life Internal Model and Standard Life International's Standard Formula, without further diversification. A harmonisation programme to combine the two Internal Models into a single Internal Model is ongoing.

CHANGE IN PGH PLC SOLVENCY II SURPLUS (ESTIMATED)

The PGH plc Solvency II surplus has decreased to £3.0 billion (FY18: £3.2 billion). The result assumes a dynamic recalculation of Transitional Measures on Technical Provisions ('TMTP').

Surplus generation and the impact of the reduction in capital requirements for the Group added £0.2 billion to the surplus during the year.

Management actions undertaken increased the surplus by £0.3 billion. This includes £0.1 billion in respect of capital synergies associated with the acquisition of the Standard Life Assurance businesses, primarily as a result of internal group restructuring activities. Other management actions of £0.2 billion include further investment in illiquid assets within annuity portfolios and expense reductions.

The impact of new business written during the year reduced the surplus by £0.1 billion. This primarily reflects the capital strain associated with the BPA transaction executed in May and vesting annuities in the Heritage business segment. The Open business continues to be capital light.

The PGH plc Solvency II surplus position at 30 June 2019 is set out in the table below:

	Estimated position as at 30 June 2019 £bn	31 December 2018 £bn
Own Funds[1]	**10.8**	10.3
SCR[2]	**(7.8)**	(7.1)
Surplus[3]	**3.0[4]**	3.2

£3.0bn

PGH SOLVENCY II SURPLUS (ESTIMATED)

160%

PGH SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

APM

Notes:
1 Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months.
2 The SCR reflects the risks and obligations to which Phoenix Group Holdings plc is exposed.
3 The surplus equates to a regulatory coverage ratio of 139% as at 30 June 2019 (FY18:146%).
4 The estimated Solvency II surplus as at 30 June 2019 includes a dynamic recalculation of TMTP, in anticipation of the mandatory recalculation required as at 31 December 2019. Had the dynamic calculation not been performed, the surplus would have been £0.2 billion lower.

The Part VII transfer of the Standard Life Assurance Limited's Irish, German and Austrian policies to Standard Life International resulted in a £0.2 billion reduction in the surplus reflecting increases in the SCR and risk margin as a result of the more onerous capital requirements and a loss of diversification under Standard Formula compared to the Standard Life Internal Model, together with the recognition of counterparty default and additional currency risk.

Financing costs, pension contributions and dividend payments (including accrual for the 2019 interim dividend) amount to £0.2 billion and reduced the surplus in the period.

The adverse impact of economic and other variances reduced the surplus by £0.2 billion. This is largely due to the impact of the second pension scheme buy-in arrangement entered into between Phoenix Life Limited ('PLL') and the Trustees of the PGL Pension Scheme for the remaining liabilities of that Scheme. The adverse impact reflects the more onerous valuation basis for insurance technical provisions than the IAS19 basis for valuing pension scheme liabilities, creating an additional restriction within Own Funds. The impact is expected to be mitigated in the second half of 2019 once approval for Matching Adjustment has been received on these liabilities.

Other variances also includes the effect of strengthening assumptions in respect of the valuation of Equity Release Mortgages ('ERM'), and the adverse impact of falling yields, foreign exchange and property movements in the period.

SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and the PGL Pension Scheme of £2.0 billion (FY18: £2.1 billion). Surpluses within the 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.

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. This approach suppresses the regulatory capital coverage ratio, calculated as eligible own funds as a percentage of SCR.

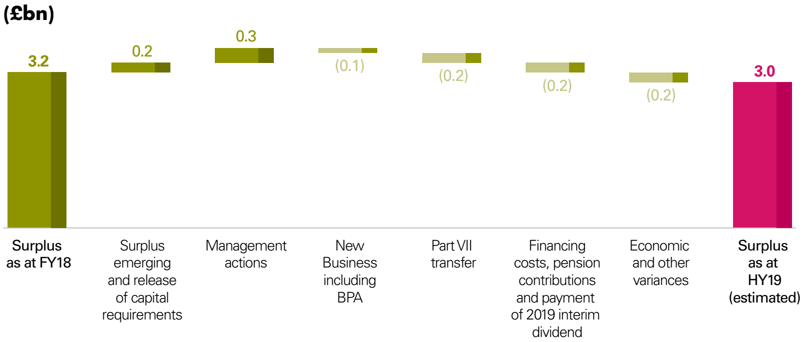
As a result, the Group focuses on a shareholder view of the capital coverage ratio which it considers to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of Eligible Own Funds to SCR adjusted to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme.

The Group targets a shareholder capital coverage ratio in the range of 140% to 180%.

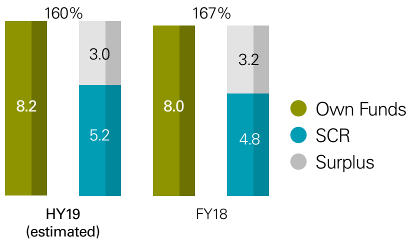
Please see the Alternative Performance Measures section on page 56 for further details of this measure.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the Solvency II Shareholder Capital Coverage ratio is 160% as at 30 June 2019 (FY18: 167%).

CHANGE IN PGH SOLVENCY II SURPLUS (£bn)



SHAREHOLDER CAPITAL COVERAGE RATIO (£bn)



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 opposite and demonstrate the resilience of the PGH plc Solvency II surplus.

The sensitivities reflect the impact of any strong with-profit funds or pension schemes that may become weak after application of the stress.

Illustrative stress testing[1]	Estimated PGH Solvency II surplus £bn	Shareholder ratio
Base: 30 June 2019	3.0	160%
Following a 20% fall in equity markets	3.0	161%
Following a 15% fall in property values	2.8	155%
Following a 60bps interest rates rise[2]	3.0	164%
Following a 80bps interest rates fall[2]	2.9	155%
Following credit spread widening[3]	2.7	157%
Following 6% decrease in annuitant mortality rates[4]	2.5	150%
Following 10% increase in assurance mortality rates	2.9	158%
Following a 10% change in lapse rates[5]	2.6	153%

Notes:
1 Assumes stress occurs on 1 July 2019.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 120bps spread widening across ratings and includes allowance for 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.

LIFE COMPANY FREE SURPLUS (ESTIMATED)

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

As at 30 June 2019, the Life Company Free Surplus is £0.6 billion (FY18: £1.0 billion). The table opposite analyses the movement during the period.

Cash remittances from holding companies relate to the £250 million capital injection into Standard Life International as part of the Group's Brexit planning activities.

	Estimated position as at 30 June 2019 £bn
Opening Free Surplus	1.0
Surplus generation and expected run-off of capital requirements	0.3
Management actions	0.2
Part VII transfer	(0.3)
Economic, financing and other	(0.3)
Free Surplus before cash remittances	0.9
Cash remittances to holding companies	(0.6)
Cash remittances from holding companies	0.3
Closing Free Surplus	0.6

IFRS RESULTS

OPERATING PROFIT

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

Please see the APM section on page 56 for further details of this measure.

The Group has generated an operating profit of £325 million (HY18: £216 million). The increase compared to the prior period is primarily driven by the contribution from the Standard Life Assurance businesses acquired in August 2018, together with the net positive impacts of experience variances. These factors have been partly offset by the lower impact of management actions within operating profit compared to prior period and the net adverse impact of actuarial assumption changes during the period.

IFRS PROFIT AFTER TAX

The IFRS profit after tax attributable to owners is £39 million (HY18: £(24) million). The increase primarily reflects the improved operating profit and a tax credit arising in the year, partly offset by an increased amortisation charge on intangibles due to the acquisition of the Standard Life Assurance businesses.

BASIS OF OPERATING PROFIT

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

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

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

Profit/(loss) after tax	**Half year ended 30 June 2019 £m**	Half year ended 30 June 2018 £m
UK Heritage	**257**	214
UK Open	**43**	6
Europe	**28**	–
Management Services companies	**13**	8
Group costs	**(16)**	(12)
Operating profit	**325**	216
Investment return variances and economic assumption changes on long-term business	**(81)**	27
Variance on owners' funds	**(3)**	(136)
Amortisation of acquired in-force business, customer relationships and other intangibles	**(199)**	(54)
Other non-operating items	**(32)**	(37)
Profit before finance costs and tax attributable to owners	**10**	16
Finance costs attributable to owners	**(63)**	(54)
Loss before the tax attributable to owners of the parent	**(53)**	(38)
Profit before tax attributable to non-controlling interests	**2**	–
Loss before tax attributable to owners	**(51)**	(38)
Tax credit attributable to owners	**90**	14
Profit/(loss) after tax attributable to owners	**39**	(24)

£325m

OPERATING PROFIT

APM

£39m

IFRS PROFIT AFTER TAX

UK HERITAGE OPERATING PROFIT

The Group's UK Heritage business segment does not actively sell new life or pension policies and runs-off gradually over time.

The with-profit operating profit of £58 million (HY18: £40 million) has increased reflecting the contribution from the acquired Standard Life Assurance businesses.

The with-profit funds where internal capital support has been provided generated an operating loss of £10 million (HY18: £6 million loss). The loss is principally driven by the negative impact of updating actuarial assumptions with respect to the persistency of products with valuable guarantees in relation to late retirements.

The non-profit and unit-linked funds operating profit increased to £207 million (HY18: £185 million), reflecting the contribution of the acquired Standard Life Assurance businesses together with positive non-economic experience items. This has been partly offset by the lower positive impact of management actions and the delivery of actuarial modelling enhancements in the prior period.

The long-term return on owners' funds for the period was £2 million (HY18: £1 million).

UK Heritage operating profit	**Half year ended 30 June 2019 £m**	Half year ended 30 June 2018 £m
With-profit	**58**	40
With-profit where internal capital support provided	**(10)**	(6)
Non-profit and unit linked	**207**	173
Long-term return on owners' funds	**2**	7
UK Heritage operating profit before tax	**257**	214

UK OPEN OPERATING PROFIT

The Group's UK Open business segment delivered an operating profit of £43 million driven by the Standard Life Assurance businesses. This includes operating profits generated across the Workplace, Retail and SIPP product lines, including new business distributed through our Strategic Partnership with SLA plc, together with the operating profits from the Group's SunLife business.

EUROPE OPERATING PROFIT

The European business which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £28 million during the first half of the year.

MANAGEMENT SERVICES COMPANIES OPERATING PROFIT

The operating profit for management services of £13 million (HY18: £8 million) comprises income from the life and holding companies in accordance with the respective management services company agreements less fees related to the outsourcing of services and other operating costs. The increase compared to prior period is principally driven by a revised management services agreement now in place for the full period in respect of the acquired Abbey Life business.

GROUP COSTS

Group costs of £16 million (HY18: £12 million) mainly comprise project recharges from the service companies offset by returns on the scheme surplus of the Group staff pension schemes. The increase compared to the prior period principally reflects a lower return on the scheme surplus of the PGL Pension Scheme following the buy-in transaction in March.

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

The net adverse investment return variances and economic assumption changes on long-term business of £81 million (HY18: £27 million positive) primarily arise due to losses on hedging positions held by the life funds following global equity market gains during the first half of the year. The Group's exposure to equity movements arise from future profits in relation to the shareholder share of with-profit bonuses and unit-linked charges which are 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.

Losses on these hedging positions have been partly offset by the positive impacts of strategic asset allocation activities undertaken in the period, including investment in higher yielding illiquid assets, together with positive impacts from lower fixed interest yields and narrowing credit spreads experienced in the first half of the year.

VARIANCE ON OWNERS' FUNDS

The adverse variance on owners' funds was £3 million (HY18: £136 million adverse). The reduction principally reflects that the prior period comparative includes losses on derivative instruments entered into by the holding companies to hedge exposure to equity risk arising pre-completion of the Group's acquisition of the Standard Life Assurance businesses.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

The carrying amount of the Group's acquired in-force business and other intangibles was £3.8 billion at the end of the period (gross of deferred tax), of which £2.7 billion related to the Standard Life Assurance businesses.

The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates. Amortisation of acquired in-force business during the first half of the year totalled £189 million (HY18: £46 million) with the increase from the prior period driven by the additional acquired-in-force business for the Standard Life Assurance businesses noted above. Amortisation of other intangible assets totalled £10 million in the first half of the year (HY18: £8 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £32 million negative (HY18: £37 million negative) includes £26 million of staff and other expenses associated with corporate related projects, including £4 million of external costs related to the transition of the acquired Standard Life Assurance businesses. It also includes £7 million of costs associated with preparations to ready the business for Brexit and net other items totalling £1 million of income.

FINANCE COSTS

Finance costs have increased by £9 million, reflecting the €500 million Tier 2 debt issuance in September 2018.

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 refreshed annually and is available on the corporate responsibility section of the Group's website.

The Group's insurance operations are primarily based in the UK and are liable to tax in accordance with applicable UK legislation. Following the acquisition of the Standard Life Assurance businesses, the Group's overseas operations have expanded, into Ireland and Germany in particular. The Group complies with the local tax obligations in the jurisdictions in which it operates. 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 £90 million (HY18: £14 million tax credit) based on a loss (after policyholder tax) of £51 million (HY18: £38 million loss). The significant tax adjustments to the owners' loss before tax principally reflect the tax impacts associated with the Part VII transfer of the Group's European business to Standard Life International and a prior year shareholder tax credit. Further details are provided in note 5 to the condensed consolidated interim financial statements.

FINANCIAL LEVERAGE

The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to help ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions. The financial leverage ratio as at 30 June 2019 (as calculated by the Group in accordance with Fitch Ratings' stated methodology) is 23% (FY18: 22%). This is below the target range management considers to be associated with maintaining an investment grade rating of 25% to 30%.

Financial leverage is calculated as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. It excludes debt instruments treated as equity. Equity is defined as the sum of equity attributable to the owners of the parent (excluding goodwill), the unallocated surplus and the Tier 1 Notes.

RISK MANAGEMENT

THE GROUP'S RISK MANAGEMENT FRAMEWORK

The roll-out of a harmonised Risk Management Framework ('RMF') is well progressed across the Group and we are on track to complete by year-end. This Framework combines the 'best of both' from the respective legacy frameworks and will support proactive and effective risk management and the execution of the Group's strategy. We intend to communicate more details of the harmonised framework as part of our 2019 Annual Report and Accounts.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's principal risks remain unchanged from those noted in pages 43–45 of our 2018 Annual Report and Accounts (published March 2019). Key developments in our principal risks since then are detailed below. As economic and operational changes occur, and as the industry and regulatory environment evolves, the Group will continue to monitor the potential impact of these risks and take appropriate actions.

Risk	Impact	Mitigation	Strategic priorities	Change since 2018 Annual Report and Accounts
Strategic risk				
The Group fails to make further value adding acquisitions or effectively transition acquired businesses	The Group is exposed to the risk of failing to drive value through inorganic growth opportunities. This includes acquisitions of life and pensions books of business and further investment in the Bulk Purchase Annuity ('BPA') market. The transition of acquired businesses into the Group could introduce structural or operational challenges that result in Phoenix failing to deliver the expected outcomes for customers or value for shareholders.	The Group applies a clear set of criteria to assess inorganic opportunities. Our acquisition strategy is supported by the Group's financial strength and flexibility, its strong regulatory relationships and its track record of managing customer outcomes and generating value. The financial and operational risks of target businesses are assessed in the acquisition phase and potential mitigants are identified. Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations.	1 2 3	No Change The transition of the Standard Life Assurance business into the Group remains on track. This includes the development of a single Internal Model and delivery against the synergies of the deal. Transition activity continues to contribute to a heightened level of change activity across the Group and this is being carefully managed. Our Corporate Development team continues to assess new Merger & Acquisition and BPA opportunities.
The Group's Strategic Partnership with Standard Life Aberdeen fails to deliver the expected benefits	The Strategic Partnership with Standard Life Aberdeen plc ('SLA plc') is expected to provide additional growth opportunities and is an enabler for delivery of the Group's strategy. There is a risk that the partnership does not deliver the expected benefits. Key areas include implementation and oversight of the Client Service and Proposition Agreement ('CSPA') and Transitional Service Agreements ('TSAs').	The Joint Operating Forum ('JOF') between SLA plc and Phoenix is developing the partnership in existing areas, and identifying areas for future growth and partnership, for the benefit of customers and shareholders of each Group. The JOF also oversees the operation of the CSPA, ensuring that each of the parties to the CSPA is performing against their CSPA obligations. The TSA Oversight Committee between SLA plc and Phoenix oversees TSA performance and activity to exit the TSAs in future.	1 2	No Change Service levels from the CSPA and TSAs are working effectively. As noted elsewhere in this Interim Report, WRAP product flows have been adversely impacted by challenging market conditions, notably uncertainty arising from Brexit combined with a decline in transfers from defined benefit to defined contribution pension schemes.

KEY

Strategic objectives icons	Change in risk from 2018 Annual Report and Accounts
1 Improve Customer Outcomes	Risk Improved
2 Drive Value	No Change
3 Manage Capital	Risk Heightened
4 Engage Colleagues	

THE ROLL-OUT OF A HARMONISED RISK MANAGEMENT FRAMEWORK IS WELL PROGRESSED ACROSS THE GROUP AND WE ARE ON TRACK TO COMPLETE BY YEAR-END. THIS FRAMEWORK WILL CONTINUE TO SUPPORT PROACTIVE AND EFFECTIVE RISK MANAGEMENT AND THE EXECUTION OF THE GROUP'S STRATEGY.

JONATHAN PEARS
GROUP CHIEF RISK OFFICER

Risk	Impact	Mitigation	Strategic priorities	Change since 2018 Annual Report and Accounts
The Group fails to ensure that its propositions continue to meet the evolving needs of customers and clients	The Group's ability to deliver growth assumed in business plans could be adversely impacted if our propositions fail to meet the needs of customers and clients. The risk could materialise through increased outflows or reduced new business levels.	Our propositions are designed and developed with our customers and clients at the heart. We actively review and invest in our propositions to ensure they remain competitive and meet expectations. We also regularly seek customer feedback on our propositions, using this to inform future developments.	1 2	No Change We are continuing to progress important propositional enhancements, in particular across our Workplace business. Investing in our digital proposition is an important part of delivering our strategy. We are continuing to collaborate with our strategic partners and leverage the strong relationships we have with them.
Customer risk				
The Group fails to deliver fair outcomes for its customers	The Group is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and/or potential detriment. This could also lead to reputational damage for the Group and/or financial losses.	Our Customer policies help to ensure that the standards and outcomes we set are implemented consistently across the business. We maintain a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes.	1	No Change As part of our RMF harmonisation over H1 2019, we made enhancements to our Conduct Risk Framework, enabling us to have better oversight of customer outcomes across the Group. Our remediation programme for customers affected by the outcome of the FCA's industry-wide annuity review is progressing well; we expect this to complete by the end of the year.
Operational risk				
The Group is impacted by significant changes in the regulatory, legislative or political environment	Changes in regulation could increase the Group's costs, impact profitability or reduce demand for our propositions. Changes in legislation, such as the implications of Brexit, can also impact the Group's operations or financial position. Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.	The Group actively engages with regulators and governments in order to understand potential changes in the regulatory and legislative landscape. The Group assesses the risks and benefits of regulatory and legislative changes to our customers and to the Group and actively engages with regulators and governments as appropriate. The Group has contingency plans in place to ensure that we can continue to service our non-UK European customers after the UK leaves the EU.	1 2 3	Improved Whilst there remains a heightened level of uncertainty around the outcome of Brexit, the 'Improved' risk rating is based on the actions the Group implemented in March, through a Part VII transfer, to protect the interests of our non-UK European customers in the event of a 'No Deal' Brexit. This action gave certainty and security to these customers. The FCA has announced enforcement action against Standard Life Assurance Limited following the outcome of its industry-wide annuity review; accounting provisions to redress impacted customers had been made for this and declared previously.
The Group or its outsourcers are not sufficiently operationally resilient	We are exposed to the risk of being unable to maintain provision of services in the event of major operational disruption, either within our own organisation or those of our outsourcers. Our Group now relies on a wide range of IT systems, including those we provide to SLA plc through the terms of the Standard Life Assurance business acquisition. In addition, the Group is increasing its use of online functionality to meet customer preferences. This exposes us to the risk of failure of key systems and cyber-attacks. Regulators' expectations of the speed and effectiveness of firms' responses to business resilience incidents are increasing.	The Group has a business continuity management framework that is subject to annual refresh and regular testing. The Group operates an oversight framework to ensure that our outsource partners and critical suppliers adhere to the same business continuity principles. We work with specialist external cyber risk experts to identify new risks and develop our responses.	1 2 3	No Change Outsourcer service delivery levels remain good against a backdrop of heightened change activity across the Group; this is monitored regularly by our management teams. The Group continues to engage with external forums to monitor the cyber threat landscape. In addition, a specialist Line 2 team has been formed which will provide assurance regarding cyber-enabled crime risk exposure to our customers and the business.

KEY

Strategic objectives icons	Change in risk from 2018 Annual Report and Accounts
1 **Improve Customer Outcomes**	**Risk Improved**
2 **Drive Value**	**No Change**
3 **Manage Capital**	**Risk Heightened**
4 **Engage Colleagues**	

Risk	Impact	Mitigation	Strategic priorities	Change since 2018 Annual Report and Accounts
The Group fails to retain or attract a diverse workforce with the skills needed to deliver its strategy	The Group places great reliance on its people to help deliver its strategy. Delivery of our strategy could be impacted by the uncertainty caused by the transition of the Standard Life Assurance business into the Group; this could result in loss of critical corporate knowledge or unplanned departures of key individuals.	Timely communications to our people aim to provide clarity around any uncertainty brought by the purchase of Standard Life, along with key milestones required to deliver the transition. We regularly benchmark terms and conditions against the market. We maintain and review succession plans for key individuals.	1 2 3 4	No Change Organisational changes are progressing as planned across a number of functions. Our management teams continue to engage and motivate our colleagues to deliver the Group's strategic priorities against this continuing backdrop of uncertainty. We have launched a new set of 'Group Values' which reflect a collaborative, inclusive environment where colleagues are trusted and supported to contribute to the success of our business.
Market risk				
Adverse market movements can impact the Group's ability to meet it cash flow targets, along with the potential to negatively impact customer sentiment	The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long term investment performance for shareholders and customers. There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector specific sentiment and financial risks of climate change including risks from the transition to a low carbon economy.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against unwanted 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	Heightened Whilst equity markets have generally risen in the first half of 2019, interest rates have fallen as a result of ongoing political uncertainty and the increasing likelihood of a 'No Deal' Brexit. The potential market impacts of a 'No Deal' Brexit is reflected in the 'Heightened' risk rating. We continue to stress our balance sheet to ensure it remains resilient to market movements and have identified contingency actions to help manage market risks that could arise as a result of a 'No Deal' Brexit or, more generally, a global economic downturn. Our exposure to residential property remains within appetite but is increasing in line with investment in Equity Release Mortgages.
Insurance risk				
The Group may be exposed to adverse demographic experience which is out of line with expectations	The Group has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if our annuity policyholders live for longer than expected, then their benefits will be paid for longer. The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group continues to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite. The Group actively monitors persistency risk metrics and exposures across the open and heritage businesses.	2 3	No change The Group completed an additional bulk annuity transaction worth £0.5 billion in the first half of 2019 and, consistent with previous transactions, reinsured the vast majority of the longevity risk.

KEY

Strategic objectives icons		Change in risk from 2018 Annual Report and Accounts
1	**Improve Customer Outcomes**	**Risk Improved**
2	**Drive Value**	**No Change**
3	**Manage Capital**	**Risk Heightened**
4	**Engage Colleagues**	

Risk	Impact	Mitigation	Strategic priorities	Change since 2018 Annual Report and Accounts
Credit risk				
The Group is exposed to the failure of a significant counterparty	The life companies are exposed to deterioration in the actual or perceived creditworthiness or default of investment, reinsurance or banking counterparties. This can cause immediate financial loss or a reduction in future profits. An increase in credit spreads (particularly if 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, such as reinsurers or service providers failing to meet all or part of their obligations.	The Group regularly monitors its counterparty exposures and has specific limits relating to individual exposures, counterparty credit ratings, sectors and geographies. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised.	3	No change As a result of BPA deals, the Group continues to invest in illiquid credit assets and to increase its exposure to reinsurers. This remains in line with our business plans and within our risk appetite. Investment counterparty exposures continue to be managed and monitored across the Group and remain within risk appetite.

EMERGING RISKS

The Group's senior management and Board take emerging risks into account when setting strategy and reviewing business performance. This allows early management of risks that could lead to adverse outcomes for the business.

Some of the current emerging risks the Group considers are listed in the table below.

Risk Title	Description	Risk Universe Category
Market Disruption	The impact on the attractiveness of our propositions from alternative providers in the market or new legislation introduced.	Strategic
Solvency II Changes	Changes to the solvency regime as a result of government review and the UK's exit from the EU.	Financial soundness
Climate Change and Environmental, Social and Governance ('ESG') risks	Phoenix is exposed to market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition there are long-term market, insurance and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). Political and regulatory focus is increasing in both of these areas. Climate change and ESG risks are recognised in our emerging risk process as part of our Risk Management Framework.	All

KEY

Strategic objectives icons	Change in risk from 2018 Annual Report and Accounts
1 **Improve Customer Outcomes**	**Risk Improved**
2 **Drive Value**	**No Change**
3 **Manage Capital**	**Risk Heightened**
4 **Engage Colleagues**	

FINANCIALS

IN THIS SECTION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- the condensed consolidated interim financial statements for the half year ended 30 June 2019, 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 plc and its consolidated subsidiaries taken as whole;
- the Interim Report includes a fair review of the state of affairs of Phoenix Group Holdings plc and its consolidated subsidiaries as at 30 June 2019 and for the financial half year to which the Interim Report relates as required by DTR 4.2.7 of the Disclosure Guidance and Transparency Rules. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings plc and its consolidated subsidiaries for the remaining six months of the year; and
- the Interim Report includes, as required by DTR 4.2.8, a fair review 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 AND GROUP DIRECTOR, SCOTLAND

6 August 2019

PHOENIX GROUP HOLDINGS PLC BOARD OF DIRECTORS

CHAIRMAN
Nicholas Lyons

EXECUTIVE DIRECTORS
Clive Bannister
James McConville

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

INDEPENDENT AUDITOR'S REVIEW REPORT

To: The Board of Directors of Phoenix Group Holdings plc

INTRODUCTION

We have been engaged by the Company to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises of the condensed consolidated income statement, condensed statement of consolidated comprehensive income, condensed statement of consolidated financial position, condensed statement of consolidated cash flow, 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') as adopted by the European Union ('EU'). The condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting, as adopted by the EU.

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

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 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the EU and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

ERNST & YOUNG LLP
London

6 August 2019

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2019

	Notes	**Half year ended 30 June 2019 £m**	Half year ended 30 June 2018 restated (note 1.2) £m	Year ended 31 Dec 2018 £m
Gross premiums written		**1,856**	1,089	2,645
Less: premiums ceded to reinsurers		**(273)**	(247)	(481)
Net premiums written		**1,583**	842	2,164
Fees and commissions		**343**	103	385
Total revenue, net of reinsurance payable		**1,926**	945	2,549
Net investment income		**18,438**	(56)	(9,600)
Other operating income		**47**	–	37
Gain on acquisition		**–**	–	141
Net income		**20,411**	889	(6,873)
Policyholder claims		**(3,870)**	(1,971)	(5,295)
Less: reinsurance recoveries		**587**	368	866
Change in insurance contract liabilities		**(5,074)**	915	4,768
Change in reinsurers' share of insurance contract liabilities		**(7)**	273	(20)
Transfer (to)/from unallocated surplus		**(60)**	(21)	88
Net policyholder claims and benefits incurred		**(8,424)**	(436)	407
Change in investment contract liabilities		**(10,387)**	(96)	7,975
Change in present value of future profits		**4**	5	1
Amortisation of acquired in-force business		**(192)**	(49)	(196)
Amortisation of other intangibles		**(10)**	(8)	(18)
Administrative expenses		**(645)**	(284)	(1,056)
Net (expense)/income under arrangements with reinsurers		**(200)**	–	2
Net (income)/expense attributable to unitholders		**(261)**	4	159
Total operating expenses		**(20,115)**	(864)	7,274
Profit before finance costs and tax		**296**	25	401
Finance costs		**(79)**	(67)	(142)
Profit/(loss) for the period before tax		**217**	(42)	259
Tax (charge)/credit attributable to policyholders' returns	5	**(268)**	4	211
(Loss)/profit before the tax attributable to owners		**(51)**	(38)	470
Tax (charge)/credit	5	**(178)**	18	151
Add: tax attributable to policyholders' returns	5	**268**	(4)	(211)
Tax credit/(charge) attributable to owners	5	**90**	14	(60)
Profit/(loss) for the period attributable to owners of the parent		**39**	(24)	410
Attributable to:				
Owners of the parent		**37**	(24)	379
Non-controlling interests	10	**2**	–	31
		39	(24)	410
Earnings per ordinary share				
Basic (pence per share)	6	**3.7p**	(5.5)p*	66.8p
Diluted (pence per share)	6	**3.7p**	(5.5)p*	66.7p

* Restated following rights issue.

CONDENSED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2019

	Notes	**Half year ended 30 June 2019 £m**	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Profit/(loss) for the period		**39**	(24)	410
Other comprehensive income/(expense):				
Items that are or may be reclassified to profit or loss:				
Cash flow hedges				
Fair value gains arising during the period		**19**	5	31
Reclassification adjustments for amounts recognised in profit or loss		**4**	(8)	(28)
Exchange differences on translating foreign operations		**5**	–	2
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit asset/liability		**(50)**	111	(54)
Tax credit/(charge) relating to other comprehensive income items	5	**5**	(1)	(10)
Total other comprehensive (expense)/income for the period		**(17)**	107	(59)
Total comprehensive income for the period		**22**	83	351
Attributable to:				
Owners of the parent		**20**	83	320
Non-controlling interests	10	**2**	–	31
		22	83	351

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	**30 June 2019 £m**	30 June 2018 restated (note 1.2) £m	31 Dec 2018 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	8	**72**	39	72
Share premium		**1**	1,315	3,077
Shares held by employee benefit trust		**(4)**	(4)	(6)
Foreign currency translation reserve		**103**	96	98
Owner-occupied property revaluation reserve		**5**	5	5
Cash flow hedging reserve		**15**	(14)	(8)
Retained earnings		**4,815**	1,703	1,923
Total equity attributable to owners of the parent		**5,007**	3,140	5,161
Tier 1 Notes	9	**494**	494	494
Non-controlling interests	10	**290**	–	294
Total equity		**5,791**	3,634	5,949
Liabilities				
Pension scheme liability	11	**1,746**	544	596
Insurance contract liabilities				
Liabilities under insurance contracts	12	**96,315**	43,520	91,211
Unallocated surplus		**1,413**	946	1,358
		97,728	44,466	92,569
Financial liabilities				
Investment contracts		**119,877**	26,213	114,463
Borrowings	13	**2,171**	1,760	2,186
Deposits received from reinsurers		**4,384**	348	4,438
Derivatives		**816**	1,242	1,093
Net asset value attributable to unitholders		**3,520**	690	2,659
Obligations for repayment of collateral received		**3,559**	1,575	2,645
	14	**134,327**	31,828	127,484
Provisions		**318**	110	377
Deferred tax		**867**	338	843
Reinsurance payables		**109**	27	30
Payables related to direct insurance contracts		**976**	544	902
Current tax		**44**	4	20
Lease liabilities		**74**	–	–
Accruals and deferred income		**356**	190	337
Other payables		**1,530**	512	873
Total liabilities		**238,075**	78,563	224,031
Total equity and liabilities		**243,866**	82,197	229,980

	Notes	**30 June 2019 £m**	30 June 2018 £m	31 Dec 2018 £m
ASSETS				
Pension scheme asset	11	**284**	384	255
Intangible assets				
Goodwill		**57**	57	57
Acquired in-force business		**3,841**	1,249	4,033
Other intangibles		**215**	199	221
		4,113	1,505	4,311
Property, plant and equipment		**116**	27	48
Investment property		**6,184**	615	6,520
Financial assets				
Loans and deposits		**4,216**	2,288	3,612
Derivatives		**4,607**	2,120	3,798
Equities		**57,639**	16,009	52,716
Investment in associate		**512**	519	496
Debt securities		**73,633**	26,789	67,932
Collective investment schemes		**71,581**	18,527	70,606
Reinsurers' share of investment contract liabilities		**5,603**	6,009	5,417
	14	**217,791**	72,261	204,577
Insurance assets				
Reinsurers' share of insurance contract liabilities		**7,642**	3,594	7,564
Reinsurance receivables		**41**	39	42
Insurance contract receivables		**59**	9	67
		7,742	3,642	7,673
Current tax		**92**	54	145
Prepayments and accrued income		**563**	359	478
Other receivables		**1,763**	1,171	1,047
Cash and cash equivalents		**5,218**	2,179	4,926
Total assets		**243,866**	82,197	229,980

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE HALF YEAR ENDED 30 JUNE 2019

	Notes	**Half year ended 30 June 2019 £m**	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Cash flows from operating activities				
Cash generated/(utilised) by operations	15	**605**	(388)	(324)
Taxation paid		**(71)**	(18)	(29)
Net cash flows from operating activities		**534**	(406)	(353)
Cash flows from Investing activities				
Acquisition of Standard Life Assurance subsidiaries, net of cash acquired		**–**	–	1,607
Net cash flows from investing activities		**–**	–	1,607
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**1**	1	936
Ordinary share dividends paid	7	**(169)**	(99)	(262)
Dividends paid to non-controlling interests	10	**(6)**	–	(2)
Repayment of policyholder borrowings		**(13)**	(32)	(69)
Repayment of shareholder borrowings		**–**	–	(295)
Repayment of lease liabilities		**(6)**	–	–
Proceeds from new shareholder borrowings, net of associated expenses		**–**	–	733
Proceeds from issuance of Tier 1 Notes, net of associated expenses		**–**	494	494
Coupon paid on Tier 1 Notes		**(14)**	–	(14)
Interest paid on policyholder borrowings		**–**	–	(5)
Interest paid on shareholder borrowings		**(35)**	(24)	(89)
Net cash flows from financing activities		**(242)**	340	1,427
Net increase/(decrease) in cash and cash equivalents		**292**	(66)	2,681
Cash and cash equivalents at the beginning of the period		**4,926**	2,245	2,245
Cash and cash equivalents at the end of the period		**5,218**	2,179	4,926

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2019

	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 equity attributable to ordinary shareholders of the parent £m	Tier 1 Notes (note 9) £m	Non-controlling interests (note 10) £m	Total equity £m
At 1 January 2019	72	3,077	(6)	98	5	(8)	1,923	5,161	494	294	5,949
Profit for the period	–	–	–	–	–	–	37	37	–	2	39
Other comprehensive income/(expense) for the period	–	–	–	5	–	23	(45)	(17)	–	–	(17)
Total comprehensive income for the period	–	–	–	5	–	23	(8)	20	–	2	22
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	–	1	–	–	1
Dividends paid on ordinary shares	–	–	–	–	–	–	(169)	(169)	–	–	(169)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(6)	(6)
Transfer of reserve[1]	–	(3,077)	–	–	–	–	3,077	–	–	–	–
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	6	6	–	–	6
Shares distributed by the employee benefit trust	–	–	2	–	–	–	(2)	–	–	–	–
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 30 June 2019	**72**	**1**	**(4)**	**103**	**5**	**15**	**4,815**	**5,007**	**494**	**290**	**5,791**

1 On 12 December 2018, a scheme of arrangement was completed and as detailed in note A1 to the 2018 consolidated financial statements, has been accounted for in accordance with the principles of a reverse acquisition. The share premium reserve as at 31 December 2018 continued to reflect the position of Phoenix Group Holdings ('Old PGH'), the former ultimate parent undertaking of the Group. During the half year ended 30 June 2019, Old PGH, in accordance with Cayman Islands Companies Law, made a distribution of its entire share premium reserve to Phoenix Group Holdings plc, the current ultimate parent undertaking of the Group. This has been reflected as a transfer of share premium in the condensed statement of consolidated changes in equity in the period.

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 equity attributable to ordinary shareholder of the parent £m	Tier 1 Notes (note 9) £m	Total equity £m
At 1 January 2018 restated (note 1.2)	39	1,413	(2)	96	5	(11)	1,615	3,155	–	3,155
Loss for the period	–	–	–	–	–	–	(24)	(24)	–	(24)
Other comprehensive (expense)/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 employee benefit trust	–	–	2	–	–	–	(2)	–	–	–
Shares acquired by employee benefit trust	–	–	(4)	–	–	–	–	(4)	–	(4)
Issue of Tier 1 Notes	–	–	–	–	–	–	–	–	494	494
At 30 June 2018 restated (note 1.2)	39	1,315	(4)	96	5	(14)	1,703	3,140	494	3,634

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 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 equity attributable to ordinary shareholders of the parent £m	Tier 1 Notes (note 9) £m	Non-controlling interests (note 10) £m	Total equity £m
At 1 January 2018	39	1,413	(2)	96	5	(11)	1,615	3,155	–	–	3,155
Profit for the period	–	–	–		–	–	379	379	–	31	410
Other comprehensive income/(expense) for the period	–	–	–	2	–	3	(64)	(59)	–	–	(59)
Total comprehensive income for the period	–	–	–	2	–	3	315	320	–	31	351
Issue of ordinary share capital, net of associated commissions and expenses	33	1,926	–	–	–	–	–	1,959	–	–	1,959
Dividends paid on ordinary shares	–	(262)	–	–	–	–	–	(262)	–	–	(262)
Credit to equity for equity-settled share based payments	–	–	–	–	–	–	9	9	–	–	9
Shares distributed by employee benefit trust	–	–	4	–	–	–	(4)	–	–	–	–
Shares acquired by employee benefit trust	–	–	(8)	–	–	–	–	(8)	–	–	(8)
Non-controlling interests recognised on acquisition	–	–	–	–	–	–	–	–	–	265	265
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(2)	(2)
Issue of Tier 1 Notes	–	–	–	–	–	–	–	–	494	–	494
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 31 December 2018	72	3,077	(6)	98	5	(8)	1,923	5,161	494	294	5,949

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 2019 comprise the interim financial statements of Phoenix Group Holdings plc ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 19 to 26 and were authorised by the Board of Directors for issue on 6 August 2019. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young LLP and their review report appears on page 18.

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies applied in the interim financial statements are consistent with those set out in the 2018 consolidated financial statements except in relation to the adoption of IFRS 16 Leases, where a new accounting policy applies from 1 January 2019. Further details are included in note 1.1.

The interim financial statements do not include all the information and disclosures required in the 2018 consolidated financial statements, and should be read in conjunction with the Group's 2018 Annual Report and Accounts, which have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). Prior to 31 December 2018, the consolidated financial statements were prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'). As at 30 June 2019, there were no differences between IFRSs adopted by the EU and those issued by the IASB in terms of their application to the Group, and therefore there is no impact on the current or prior period as a result of this change.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2019 in addition to IFRS 16:

- IFRIC 23 Uncertainty over Income Tax;
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures;
- Amendments to IAS 19 Plan Amendments, Curtailment or Settlement; and
- Annual Improvements to IFRSs 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23).

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

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

These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

1.1 Changes in accounting policies – IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees effective from 1 January 2019. IFRS 16 supersedes IAS17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. As a result, the Group as a lessee has recognised right-of-use assets representing its rights to use underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information for 2018 has not been restated and continues to be reported under IAS 17 and related interpretations. The details of the changes in accounting policies are discussed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement contains a Lease'. The Group now assesses whether a contract is or contains a lease based on IFRS16 which states that 'a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration'.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group excludes non-lease components such as service charges and accounts for these on a straight-line basis over its lease term.

1. BASIS OF PREPARATION continued

Accounting policy

As a lessee, the Group previously classified property leases as operating leases where a significant element of the risks and rewards of title to the asset was retained by the lessor. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for all property leases in the statement of consolidated financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease liabilities are presented as a separate line item and right-of-use assets are presented within 'property, plant and equipment' in the condensed statement of consolidated financial position.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairments, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated over the remaining lease term which is between 1 and 11 years.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate as the interest rate implicit in the lease cannot be readily determined. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from, for example, rent reviews or from changes in the assessment of whether a termination option is reasonably certain not to be exercised. The Group has applied judgement to determine the lease term for some lease contracts with break clauses.

Transition

Previously, the Group classified property leases as operating leases under IAS 17. Payments made under operating leases, net of any incentives received from the lessor, were recognised as an expense in the consolidated income statement on a straight-line basis over the period of the lease.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used a further practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17 to exclude initial direct costs from measuring the right-of-use asset at the date of initial application.

Impact on interim financial statements

The impact to the condensed statement of consolidated financial position on transition to IFRS 16 is outlined below:

	1 January 2019 £m
Right-of-use assets	**79**
Lease liabilities	**(80)**
Derecognition of accrual for rent free period	**1**
Total	**–**

The Group's weighted average incremental borrowing rate applied to lease liabilities in the condensed statement of consolidated financial position at the date of initial application was 2.77%.

1. BASIS OF PREPARATION continued

Impact on interim financial statements continued

The table below reconciles closing operating lease commitments at 31 December 2018 to opening lease liabilities as classified under IFRS16 at 1 January 2019.

	1 January 2019 £m
Operating lease commitment as at 31 December 2018	**91**
Restatement of opening lease commitments[1]	**(6)**
Restated operating lease commitment as at 31 December 2018	**85**
Effect of discounting using the incremental borrowing rate as at 1 January 2019	**(11)**
Less: Low value leases recognised on a straight-line basis as expense	**(1)**
Add: Adjustments as a result of different treatment of extension and termination options	**7**
Lease liabilities as at 1 January 2019	**80**

1 The opening restatement relates to service agreements incorrectly categorised as operating lease commitments at 31 December 2018.

As a result of applying IFRS 16, in relation to leases that were previously classified as operating leases, the Group recognised £74 million of right-of-use assets and £74 million of lease liabilities as at 30 June 2019. Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of an operating lease expense. During the half year ending 30 June 2019 £5 million of depreciation charges and £1 million of interest costs were recognised.

The transition to IFRS 16 does not impact the profit before tax for the year.

1.2 Restatement of prior period information

In the 2018 consolidated financial statements the 2017 comparative information was restated. As a consequence, the comparative information for the half year ended 30 June 2018 has also been restated in this set of interim financial statements. Details of these restatements are outlined below.

Following the acquisition of the Standard Life Assurance businesses, the Group revised the presentation of its 2018 consolidated income statement to aid understanding of the Enlarged Group's results. Where necessary, the half year ended 30 June 2018 comparative amounts and accompanying notes have been restated to reflect line item reclassifications.

The Group reassessed its operating segments to reflect the way in which the business is being managed following the acquisition of the Standard Life Assurance businesses. Comparative segmental performance information has been restated in line with the revised segments and further details are provided in note 3.

The equity structure disclosed for the 30 June 2018 comparative period has been restated to reflect the difference between the par value of shares issued by the Company and the shares issued by Phoenix Group Holdings ('Old PGH') prior to the share for share exchange. Further details are included in note A1 of the 2018 consolidated financial statements. The restatement impacts the condensed statement of consolidated financial position and the condensed statement of consolidated changes in equity.

Additionally, operating lease commitments have been restated for service agreements incorrectly classified as operating leases as at 31 December 2018.

None of the restatements of prior period information have impacted the profit or loss or total equity attributable to the owners of the parent.

2. ACQUISITION OF STANDARD LIFE ASSURANCE BUSINESSES

On 31 August 2018, the Group acquired 100% of the issued share capital of Standard Life Assurance Limited ('SLAL'), Standard Life Pension Funds Limited, Standard Life International Designated Activity Company ('Standard Life International'), Vebnet (Holdings) Limited, Vebnet Limited, Standard Life Lifetime Mortgages Limited, Standard Life Assets and Employee Services Limited and Standard Life Investment Funds Limited (together known as the 'Standard Life Assurance businesses') from Standard Life Aberdeen plc ('SLA plc') for total consideration of £2,994 million. The consideration consisted of £1,971 million of cash funded by a fully underwritten rights issue of £950 million, with the remaining balance of £1,021 million funded by a mix of new debt and Phoenix's own resources. In addition, SLA plc took a 19.98% equity stake in the Enlarged Group on completion valued at £1,023 million, based on the share price at 31 August 2018.

The fair values of the identifiable assets acquired and liabilities assumed as at the date of the acquisition were disclosed in the notes to the 2018 consolidated financial statements.

3. SEGMENTAL ANALYSIS

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

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

Following the acquisition of the Standard Life Assurance businesses, the Group has reassessed its operating segments to reflect the way the business is now being managed. The Group now has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services.

Previously the Group had one operating segment being Phoenix Life which included the Group's operating insurance entities and the Management Services entities in the Group. Comparative segmental information for the half year ended 30 June 2018 has been presented on a basis consistent with the current period and the year ended 31 December 2018.

The UK Heritage segment contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies, and will provide annuities to existing policyholders with vesting products. Bulk Purchase Annuity contracts are included in this segment.

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

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

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

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

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

Segmental measure of performance: Operating profit

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

The determination of operating profit is as described in note B1 of the Group's 2018 consolidated financial statements.

3. SEGMENTAL ANALYSIS continued

3.1 Segmental result

Half year ended 30 June 2019

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 restated (note 1.2) £m	Year ended 31 Dec 2018 £m
Operating profit			
UK Heritage	**257**	214	640
UK Open	**43**	6	41
Europe	**28**	–	22
Management Services	**13**	8	25
Unallocated Group	**(16)**	(12)	(20)
Total segmental operating profit	**325**	216	708
Investment return variances and economic assumption changes on long-term business	**(81)**	27	283
Variance on owners' funds	**(3)**	(136)	(193)
Amortisation of acquired in-force business	**(189)**	(46)	(189)
Amortisation of other intangibles	**(10)**	(8)	(18)
Other non-operating items	**(32)**	(37)	(38)
Finance costs attributable to owners	**(63)**	(54)	(114)
(Loss)/profit before the tax attributable to owners of the parent	**(53)**	(38)	439
Profit before tax attributable to non-controlling interests	**2**	–	31
(Loss)/profit before the tax attributable to owners	**(51)**	(38)	470

Other non-operating items in respect of the half year ended 30 June 2019 include:

- £26 million of staff costs and other expenses associated with corporate related projects, including £4 million of external costs associated with the transition of the Standard Life Assurance businesses; and
- £7 million of costs associated with preparations to ready the business for Brexit and net other items totalling £1 million of income.

Other non-operating items in respect of the half year ended 30 June 2018 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 the Standard Life Assurance businesses;
- a net benefit of £52 million reflecting anticipated costs 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.

Other non-operating items in respect of the year ended 31 December 2018 include:

- a provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products;
- costs of £43 million associated with the acquisition of the Standard Life Assurance businesses, and £7 million incurred under the on-going transition programme;
- costs of £59 million associated with the equalisation of accrued Guaranteed Minimum Pension benefits within the Group's pension schemes;
- a net benefit of £45 million reflecting anticipated costs savings associated with process improvements and continued investment in the digitalisation of the customer journey;
- a gain on acquisition of £141 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the Standard Life Assurance businesses; and
- net other one-off items totalling a cost of £47 million, including other corporate project costs of £42 million.

3. SEGMENTAL ANALYSIS continued

3.2 Segmental revenue

Half year ended 30 June 2019	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	**1,138**	**117**	**601**	**–**	**–**	**1,856**
Less: premiums ceded to reinsurers	**(259)**	**–**	**(14)**	**–**	**–**	**(273)**
Net premiums written	**879**	**117**	**587**	**–**	**–**	**1,583**
Fees and commissions	**183**	**134**	**26**	**–**	**–**	**343**
Income from other segments	**–**	**–**	**–**	**347**	**(347)**	**–**
Total segmental revenue	**1,062**	**251**	**613**	**347**	**(347)**	**1,926**

Of the revenue from external customers presented in the table above for the half year ended 30 June 2019, £1,506 million is attributable to customers in the United Kingdom ('UK') and £420 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) of £6,035 million located in the UK and £395 million located in the rest of the world.

Half year ended 30 June 2018 – restated (note 1.2)	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	991	98	–	–	–	1,089
Less: premiums ceded to reinsurers	(247)	–	–	–	–	(247)
Net premiums written	744	98	–	–	–	842
Fees and commissions	102	1	–	–	–	103
Income from other segments	–	–	–	185	(185)	–
Total segmental revenue	846	99	–	185	(185)	945

Predominantly all external revenue presented for the half year ended 30 June 2018 is attributable to customers in the UK. Additionally, predominantly all non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) held as at 30 June 2018 were located in the UK.

Year ended 31 December 2018	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	1,959	200	486	–	–	2,645
Less: premiums ceded to reinsurers	(478)	(1)	(2)	–	–	(481)
Net premiums written	1,481	199	484	–	–	2,164
Fees and commissions	272	91	22	–	–	385
Income from other segments	–	–	–	505	(505)	–
Total segmental revenue	1,753	290	506	505	(505)	2,549

Of the revenue from external customers presented in the table above for the year ended 31 December 2018, £2,199 million is attributable to customers in the UK and £350 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group had total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) of £6,318 million located in the UK and £367 million located in the rest of the world.

4. INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES

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

4.1 Calculation of the long-term investment return

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

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15 year duration plus 10bps at the start of the year. A risk premium of 350bps is added to the risk-free yield for equities (30 June 2018 and 31 December 2018: 350bps), 250bps for properties (30 June 2018 and 31 December 2018: 250bps), 150bps for other fixed interest assets (30 June 2018 and 31 December 2018: 150bps) and 50bps for gilts (30 June 2018 and 31 December 2018: 50bps).

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

	Half year ended 30 June 2019 %	Half year ended 30 June 2018 %	Year ended 31 Dec 2018 %
Equities	**5.2**	5.2	5.2
Properties	**4.2**	4.2	4.2
Gilts	**2.2**	2.2	2.2
Other fixed interest	**3.2**	3.2	3.2

4.2 Life assurance business

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

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

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

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

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Investment return variances and economic assumption changes on long-term business	**(81)**	27	283

The net adverse investment return variances and economic assumption changes on long-term business of £81 million in the first half of 2019 (half year ended 30 June 2018: positive £27 million; year ended 31 December 2018: positive £283 million) primarily arise due to losses on hedging positions held by the life funds following global equity market gains during the first half of the year. The Group's exposure to equity movements arises from future profits in relation to the shareholder share of with-profit bonuses and unit-linked charges which are 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.

Losses on these hedging positions have been partly offset by the positive impacts of strategic asset allocation activities undertaken in the period, including investment in higher yielding illiquid assets together with positive impacts from lower fixed interest yields and narrowing credit spreads experienced in the first half of the year.

4. INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES continued

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 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Variance on owners' funds of subsidiary undertakings	**(3)**	(136)	(193)

The adverse variance on owners' funds of subsidiary undertakings was £3 million (30 June 2018: adverse £136 million; 31 December 2018: adverse £193 million). The reduction principally reflects that the prior period comparative includes losses on derivative instruments entered into by the holding companies to hedge exposure to equity risk arising pre-completion of the Group's acquisition of the Standard Life Assurance businesses.

5. TAX CHARGE/(CREDIT)

5.1 Current period tax charge/(credit)

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Current tax:			
UK corporation tax	**107**	3	83
Overseas tax	**42**	13	20
	149	16	103
Adjustment in respect of prior years	**–**	(5)	(54)
Total current tax charge	**149**	11	49
Deferred tax:			
Origination and reversal of temporary differences	**106**	(28)	(195)
Change in the rate of corporation tax	**(46)**	–	(4)
Write up of deferred tax assets	**(31)**	(1)	(1)
Total deferred tax charge/(credit)	**29**	(29)	(200)
Total tax charge/(credit)	**178**	(18)	(151)
Attributable to:			
– policyholders	**268**	(4)	(211)
– owners	**(90)**	(14)	60
Total tax charge/(credit)	**178**	(18)	(151)

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 charge or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings was £268 million (half year ended 30 June 2018: £4 million credit; year ended 31 December 2018: £211 million credit).

5.2 Tax (credited)/charged to other comprehensive income

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Deferred tax (credit)/charge on defined benefit schemes	**(5)**	1	8
Deferred tax charge on share schemes	**–**	–	2
Total tax (credit)/charge relating to other comprehensive income items	**(5)**	1	10

5. TAX CHARGE/(CREDIT) continued

5.3 Reconciliation of tax charge/(credit)

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Profit/(loss) before tax	**217**	(42)	259
Policyholder tax (charge)/credit	**(268)**	4	211
(Loss)/profit before the tax attributable to owners	**(51)**	(38)	470
Tax (credit)/charge at standard UK rate of 19.0% (30 June 2018: 19.0%; 31 December 2018: 19.0%)[1]	**(10)**	(7)	89
Non-taxable income and gains and losses[2]	**(2)**	(5)	(31)
Disallowable deductions[3]	**13**	6	21
Prior year tax credit for shareholders[4]	**(30)**	(4)	(5)
Movement on acquired in-force amortisation taxed at rates greater than 19.0% (30 June 2018: 19.0%; 31 December 2018: 19.0%)	**5**	–	–
Profits taxed at rates other than 19.0% (30 June 2018: 19.0%; 31 December 2018: 19.0%)[5]	**2**	(4)	(14)
Recognition of previously unrecognised deferred tax assets[6]	**(24)**	–	–
Deferred tax rate change[7]	**(46)**	–	(4)
Current year losses not valued	**2**	–	–
Other	**–**	–	4
Owners' tax (credit)/charge	**(90)**	(14)	60
Policyholder tax charge/(credit)	**268**	(4)	(211)
Total tax charge/(credit) for the period	**178**	(18)	(151)

1 The Phoenix operating segments are predominantly in the UK. The reconciliation of tax (credit)/charge has therefore been completed by reference to the standard rate of UK tax.
2 2019 non-taxable income, gains and losses includes non-taxable dividends and gains and non-taxable pension scheme items.
3 2019 disallowable deductions are primarily in relation to a consolidation adjustment to the valuation of the PGL Pension Scheme 'buy-in' agreement of £5 million, a FCA thematic review provision in SLAL of £5 million, loss on transfer of loan facility of £2 million and fair value movements associated with a currency swap of £1 million.
4 The 2019 prior year credit primarily relates to the utilisation of trading losses in SLAL and Standard Life International of £(4) million, deferred tax asset recognition on software intangibles of £(21) million and deferred acquisition costs of £(6)m in relation to SLAL where these items are written off in the Group accounts but a tax deduction has not been claimed.
5 The 2019 profits taxed at rates other than 19% predominately relates to life company profits.
6 The 2019 tax credit represents the recognition of tax losses and intangible assets in the group companies based on the latest profit projections.
7 The deferred tax rate change credit arises as a result of the Part VII transfer of the SLAL European business to the Group's Irish domiciled subsidiary, Standard Life International of £(27) million and a reduction in AVIF tax rate applying to future profits emerging from the German branch of £(19) million.

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 consolidated 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 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	**69**	38	53
Deferred tax assets not recognised on capital losses[1]	**16**	15	21

1 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 consolidated financial statements but this will be monitored and reassessed at each reporting period as negotiations continue.

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.

Following the completion of the rights issue in July 2018 the earnings per share calculations, for all periods up to the date the rights issue shares were issued, have been adjusted for the bonus element of the rights issue. The bonus factor used was 1.11.

6.1 Basic earnings per share

The result attributable to ordinary equity holders of the parent for the purposes of computing earnings per share has been calculated as set out below. This is after adjusting for the result attributable to non-controlling interests.

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Profit/(loss) for the period attributable to owners	**39**	(24)	410
Share of result attributable to non-controlling interests	**(2)**	–	(31)
Coupon payable in respect of Tier 1 Notes, net of tax relief	**(12)**	–	(12)
Profit/(loss) attributable to ordinary equity holders of the parent	**25**	(24)	367

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

	Half year ended 30 June 2019 Number million	Half year ended 30 June 2018 Number million	Year ended 31 Dec 2018 Number million
Issued ordinary shares at beginning of the period (restated for bonus element of rights issue)	**721**	436	437
Effect of ordinary shares issued	**–**	–	115
Own shares held by employee benefit trust	**(1)**	(1)	(1)
Weighted average number of ordinary shares	**720**	435	551

Basic earnings per share is as follows:

	Half year ended 30 June 2019 pence	Half year ended 30 June 2018 pence	Year ended 31 Dec 2018 pence
Basic earnings per share (restated for bonus element of rights issue)	**3.7**	(5.5)	66.8

6.2 Diluted earnings per share

The result attributable to ordinary equity holders 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 721 million (half year ended 30 June 2018 restated: 435 million; year ended 31 December 2018: 551 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave scheme increased the weighted average number of shares on a diluted basis by 1,211,008 shares for the half year ended 30 June 2019 (year ended 31 December 2018: 375,020 shares). As losses have an anti-dilutive effect, none of the share-based awards had a dilutive effect for the half year ended 30 June 2018.

Diluted earnings per share is as follows:

	Half year ended 30 June 2019 pence	Half year ended 30 June 2018 pence	Year ended 31 Dec 2018 pence
Diluted earnings per share (restated for bonus element of rights issue)	**3.7**	(5.5)	66.7

7. DIVIDENDS ON ORDINARY SHARES

	Half year ended 30 June 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Dividend declared and paid	**169**	99	262

On 4 March 2019, the Board recommended a dividend of 23.4p per share in respect of the year ended 31 December 2018. The dividend was approved at the Company's Annual General Meeting, which was held on 2 May 2019. The dividend amounted to £169 million and was paid on 7 May 2019.

8. SHARE CAPITAL

	30 June 2019 £m	30 June 2018 restated[1] £m	31 Dec 2018 £m
Issued and fully paid:			
721.4 million (30 June 2018: 393.4 million; 31 December 2018: 721.2 million) ordinary shares of £0.10 each	**72**	39	72

1 Comparative figures have been restated for the scheme of arrangement (see note 1.2).

Movements in share capital during the period:

2019	**Number**	**£**
Shares in issue at 1 January 2019	**721,199,214**	**72,119,921**
Ordinary shares issued in the period	**206,220**	**20,622**
Shares in issue at 30 June 2019	**721,405,434**	**72,140,543**

During the period, the Company issued 206,220 shares at a total premium of £1 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

2018 – restated[1]	Number	£
Shares in issue at 1 January 2018	393,232,644	39,323,264
Other ordinary shares issued in the period	160,266	16,027
Shares in issue at 30 June 2018	393,392,910	39,339,291
Ordinary shares issued under the rights issue	183,581,978	18,358,198
Ordinary shares issued to SLA plc	144,114,450	14,411,445
Other ordinary shares issued in the period	109,876	10,987
Shares in issue at 31 December 2018	721,199,214	72,119,921

1 Restated for the scheme of arrangement (see note 1.2).

During 2018, the Company issued 270,142 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

	30 June 2019 £m	30 June 2018 £m	31 Dec 2018 £m
Tier 1 Notes	**494**	494	494

On 26 April 2018, Old PGH issued £500 million of Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes (the 'Tier 1 Notes'), the proceeds of which were used to fund a portion of the cash consideration for the acquisition of the Standard Life Assurance businesses. The Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.75% per annum 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 by reference to a five year gilt yield plus a margin of 4.169%. Interest is payable on the Tier 1 Notes semi-annually in arrears on 26 October and 26 April.

At the issue date, the Tier 1 Notes were unsecured and subordinated obligations of Old PGH. On 12 December 2018, the Company was substituted in place of Old PGH as issuer.

The Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company; accordingly the Tier 1 Notes meet the definition of equity for financial reporting purposes and are disclosed as such in the condensed consolidated financial statements. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter.

The Tier 1 Notes may be redeemed at par on the First Call Date or on any interest payment date thereafter at the option of the Company and also in other limited circumstances. If such redemption occurs prior to the fifth anniversary of the Issue Date such redemption must be funded out of the proceeds of a new issuance of, or 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, linked to the Solvency II capital position and as documented in the terms of the Tier 1 Notes, the Tier 1 Notes will be subject to a permanent write-down in value to zero.

10. NON-CONTROLLING INTERESTS

	SLPET £m
At 1 January 2019	294
Profit for the period	2
Dividends paid	(6)
At 30 June 2019	**290**

	SLPET £m
At 1 January 2018 and 30 June 2018	–
Non-controlling interests recognised on acquisition of the Standard Life Assurance businesses	265
Profit for the period	31
Dividends paid	(2)
At 31 December 2018	**294**

The non-controlling interests of £265 million recognised on acquisition of the Standard Life Assurance businesses reflects third party ownership of Standard Life Private Equity Trust ('SLPET') determined at the fair value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. As at 30 June 2019, the Group held 55.2% (31 December 2018: 55.2%) of the issued share capital of SLPET.

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

11. 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 2019.

In March 2019, the PGL Pension Scheme entered into a further 'buy-in' agreement with Phoenix Life Limited ('PLL') which covered the remaining pensioner and deferred members of the Scheme. The scheme transferred £1,111 million of plan assets to a collateral account and this transfer constituted the payment of premium to PLL. The assets transferred to PLL are recognised in the relevant line within financial assets in the condensed statement of consolidated financial position. As with the initial 'buy-in' transaction completed in December 2016, the economic effect of the transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation. The value of this insurance policy at the date of the buy-in was £670 million.

The economic surplus of the PGL Pension Scheme amounted to £51 million (30 June 2018: £550 million; 31 December 2018: £506 million). The carrying value of insurance policies effected by the PGL Pension Scheme with the Group of £1,713 million (30 June 2018: £870 million; 31 December 2018: £877 million) are eliminated on consolidation. In the prior periods a deduction was made for the provision of tax on that part of the economic surplus available as a refund on a winding-up of the scheme. At 30 June 2019 the remaining economic surplus is expected to cover future anticipated pension scheme administration expenses and subsequently no further deduction has been made. The resulting net pension scheme liability of the PGL Pension Scheme amounted to £1,662 million (30 June 2018: £487 million; 31 December 2018: £522 million). The value of the collateral assets disclosed within financial assets in the condensed statement of consolidated financial position is £2,101 million (30 June 2018: £1,080 million; 31 December 2018: £1,063 million).

The pension scheme asset of the Pearl Group Staff Pension Scheme amounted to £284 million (30 June 2018: £384 million; 31 December 2018: £255 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 £84 million (30 June 2018: £57 million; 31 December 2018: £74 million).

The triennial funding valuations of the PGL Pension Scheme and Pearl Group Staff Pension Scheme as at 30 June 2018 were completed in the first half of 2019. These showed a surplus in each scheme of £246 million and £104 million respectively. The recent funding valuation of the Abbey Life Staff Scheme Pension Scheme was completed as at 31 March 2018 and showed a deficit of £98 million.

12. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS

12.1 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.

12.2 Valuation of non-participating insurance contracts

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

12. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS continued

12.3 Process used to determine assumptions

In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group uses a risk-free rate derived from the swap yield curve, plus an illiquidity premium of 10bps. For certain non-participating business the Group makes a further adjustment to the risk-free rate to reflect illiquidity in respect of the assets backing those 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 material changes that impacted the result attributable to owners during the period was as follows:

	Increase in insurance liabilities 30 June 2019 £m	Increase/ (decrease) in insurance liabilities 30 June 2018 £m	Decrease in insurance liabilities 31 Dec 2018 £m
Change in longevity assumptions	**–**	–	(168)
Change in persistency assumptions	**19**	7	(12)
Change in mortality assumptions	**–**	–	(16)
Change in expenses assumptions	**3**	(23)	(28)

13. BORROWINGS

	30 June 2019 £m	30 June 2018 £m	31 Dec 2018 £m
Carrying value			
Limited recourse bonds 2022 7.59%	**46**	57	45
Property reversions loan	**104**	121	114
Retrocession contracts	**–**	29	13
Total policyholder borrowings	**150**	207	172
£200 million 7.25% unsecured subordinated loan	**191**	182	186
£300 million senior unsecured bond	**121**	121	121
£428 million subordinated notes	**426**	426	426
£450 million Tier 3 subordinated notes	**449**	448	448
US $500 million Tier 2 bonds	**392**	376	390
€500 million Tier 2 bonds	**442**	–	443
Total shareholder borrowings	**2,021**	1,553	2,014
Total borrowings	**2,171**	1,760	2,186

On 27 June 2019, the Group cancelled its £600 million acquisition facility and replaced its £900 million unsecured revolving credit facility with a new £1.25 billion unsecured revolving credit facility (the 'revolving facility'), maturing in June 2024. The new revolving facility is undrawn as at 30 June 2019. There are no mandatory or target amortisation payments associated with the facility but voluntary prepayments are permissible.

14. FINANCIAL INSTRUMENTS

14.1 Fair values

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

Financial assets

	30 June 2019		30 June 2018		31 Dec 2018	
	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 ('FVTPL'):						
Held for trading – derivatives	**4,607**	**4,607**	2,120	2,120	3,798	3,798
Designated upon initial recognition:						
Loans and deposits	**3,751**	**3,751**	1,950	1,950	3,189	3,189
Equities	**57,639**	**57,639**	16,009	16,009	52,716	52,716
Investment in associate	**512**	**512**	519	519	496	496
Debt securities	**73,633**	**73,633**	26,789	26,789	67,932	67,932
Collective investment schemes	**71,581**	**71,581**	18,527	18,527	70,606	70,606
Reinsurers' share of investment contract liabilities	**5,603**	**5,603**	6,009	6,009	5,417	5,417
Financial assets measured at amortised cost:						
Loans and deposits	**465**	**465**	338	338	423	423
Total financial assets[1]	**217,791**	**217,791**	72,261	72,261	204,577	204,577

Financial liabilities

	30 June 2019		30 June 2018		31 Dec 2018	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial liabilities at FVTPL:						
Held for trading – derivatives	**816**	**816**	1,242	1,242	1,093	1,093
Designated upon initial recognition:						
Borrowings	**104**	**104**	150	150	127	127
Net asset value attributable to unitholders	**3,520**	**3,520**	690	690	2,659	2,659
Investment contract liabilities	**119,877**	**119,877**	26,213	26,213	114,463	114,463
Financial liabilities measured at amortised cost:						
Borrowings	**2,067**	**2,188**	1,610	1,692	2,059	2,011
Deposits received from reinsurers	**4,384**	**4,384**	348	348	4,438	4,438
Obligations for repayment of collateral received[2]	**3,559**	**–**	1,575	–	2,645	–
Total financial liabilities	**134,327**	**130,889**	31,828	30,335	127,484	124,791

1 Total financial assets includes £2,101 million (30 June 2018: £1,080 million; 31 December 2018: £1,063 million) of assets held in a collateral account pertaining to the PGL pension scheme buy in agreements.
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.

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy

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

Level 1 financial instruments

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

Level 2 financial instruments

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

Level 3 financial instruments

The Group's financial instruments determined by valuation techniques using non-observable market inputs are based on a combination of independent third party evidence and internally developed models. In relation to investments in hedge funds and private equity investments, non-observable third party evidence in the form of net asset valuation statements are used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required. Securities that are valued using broker quotes which could not be corroborated across a sufficient range of quotes are considered as Level 3. For a 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.

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy continued

14.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2019

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	382	4,066	159	4,607
Financial assets designated at FVTPL upon initial recognition:				
Loans and deposits	–	–	3,751	3,751
Equities	56,080	–	1,559	57,639
Investment in associate	512	–	–	512
Debt securities	41,862	30,379	1,392	73,633
Collective investment schemes	70,146	708	727	71,581
Reinsurers' share of investment contract liabilities	–	5,603	–	5,603
	168,600	36,690	7,429	212,719
Total financial assets at fair value	168,982	40,756	7,588	217,326

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	105	636	75	816
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	104	104
Investment contract liabilities	–	119,877	–	119,877
Net asset value attributable to unitholders	3,520	–	–	3,520
	3,520	119,877	104	123,501
Total financial liabilities at fair value	3,625	120,513	179	124,317

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 FVTPL upon initial recognition:				
Loans and deposits	–	–	1,950	1,950
Equities	15,381	–	628	16,009
Investment in associate	519	–	–	519
Debt 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

	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 FVTPL 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

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy continued

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

At 31 December 2018

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	348	3,288	162	3,798
Financial assets designated at FVTPL upon initial recognition:				
Loans and deposits	–	–	3,189	3,189
Equities	51,347	–	1,369	52,716
Investment in associate	496	–	–	496
Debt securities	39,540	27,175	1,217	67,932
Collective investment schemes	68,594	1,219	793	70,606
Reinsurers' share of investment contract liabilities	–	5,417	–	5,417
	159,977	33,811	6,568	200,356
Total financial assets at fair value	160,325	37,099	6,730	204,154

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	73	911	109	1,093
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	127	127
Investment contract liabilities	–	114,463	–	114,463
Net asset value attributable to unitholders	2,659	–	–	2,659
	2,659	114,463	127	117,249
Total financial liabilities at fair value	2,732	115,374	236	118,342

14.2.3 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.

Debt securities categorised as Level 3 investments are predominately valued using broker quotes with the exception of unquoted corporate bonds. 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. These assets are typically held to back investment contract liabilities and participating investments contracts and therefore fair value movements in such financial assets will typically be offset by corresponding movements in liabilities.

Debt securities

The Group holds unquoted corporate bonds comprising investments in local authority loans, private placements and infrastructure loans with a total value of £1,341 million (30 June 2018: £226 million; 31 December 2018: £1,167 million). These unquoted corporate bonds are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is taken from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £62 million (30 June 2018: £22 million; 31 December 2018: £50 million) and a decrease of 35bps would increase the value by £67 million (30 June 2018: £25 million; 31 December 2018: £52 million).

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy continued

14.2.3 Level 3 financial instrument sensitivities continued

Loans and deposits

Included within loans and deposits are investments in equity release mortgages with a value of £2,372 million (30 June 2018: £1,776 million; 31 December 2018: £2,020 million). The loans are valued using a discounted cash flow model and a Black Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

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

Cash flows are discounted using a risk free curve plus a spread determined at inception based on the purchase price. This is monitored against prevailing market conditions to determine whether updates are required. To date, no updates to the spread have been necessary.

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

In order to benefit from the matching adjustment, the equity release mortgage loans are securitised into tranches of fixed rate and junior loan notes via special purpose vehicles in the Group.

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 by £228 million (30 June 2018: £151 million; 31 December 2018: £183 million) and a decrease of 100bps would increase the value by £256 million (30 June 2018: £166 million; 31 December 2018: £205 million). An increase of 1% in the inflation rate would increase the value by £17 million (30 June 2018: £12 million; 31 December 2018: £11 million) and a decrease of 1% would decrease the value by £31 million (30 June 2018: £22 million; 31 December 2018: £21 million).

An increase of 10% in house prices would increase the value by £10 million (30 June 2018: £7 million; 31 December 2018: £6 million) and a decrease of 10% would decrease the value by £19 million (30 June 2018: £14 million; 31 December 2018: £14 million).

The Group also holds investments in commercial real estate loans with a value of £427 million (30 June 2018: £88 million; 31 December 2018: £449 million). The loans are valued using a model which discounts the expected projected future cash flows at the risk-free rate plus a spread derived from a basket of comparable securities. The valuation is sensitive to changes in the discount rate. An increase of 35bps in the discount rate would decrease the value by £7 million (30 June 2018: an increase of 100bps in the discount rate would decrease the value by £6 million; 31 December 2018: an increase of 35bps in the discount rate would decrease the value by £7 million) and a decrease of 35bps would increase the value by £7 million (30 June 2018: a decrease of 100bps would increase the value by £6 million; 31 December 2018: a decrease of 35bps would increase the value by £8 million).

Included within loans and deposits are income strips with a value of £674 million (30 June 2018: £nil; 31 December 2018: £654 million). Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30-45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1). The income strips are valued using an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. The valuation is sensitive to movements in yield. An increase of 35bps would decrease the value by £63 million (31 December 2018: £70 million) and a decrease of 35bps would increase the value by £76 million (31 December 2018: £79 million).

Also included within loans and deposits are fund financing loans with a value of £229 million entered into during the period. Fund financing loans are a credit facility provided to Private Equity Funds. The loans are valued using a discounted cash flow model. The discount rate is based on a risk-free curve and a spread. Due to the short-term nature of these loans any reasonably possible changes in the spread would not have a significant impact on the fair value.

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy continued

14.2.3 Level 3 financial instrument sensitivities continued

Borrowings

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £104 million (30 June 2018: £121 million; 31 December 2018: £114 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 2018: £2 million; 31 December 2018: £2 million) and a decrease of 1% would increase the value by £1 million (30 June 2018: £2 million; 31 December 2018: £2 million). An increase of 1% in the house price inflation rate would increase the value by £2 million (30 June 2018: £2 million; 31 December 2018: £2 million) and a decrease of 1% would decrease the value by £1 million (30 June 2018: £2 million; 31 December 2018: £1 million).

Corporate transactions

Included within financial assets and liabilities are related loans and deposits of £49 million (30 June 2018: £86 million; 31 December 2018: £66 million), borrowings of £nil (30 June 2018: £29 million; 31 December 2018: £13 million) and derivative liabilities of £8 million (30 June 2018: £16 million; 31 December 2018: £13 million) pertaining to a reinsurance and retrocession arrangement. 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 2019, the net of these balances was an asset of £41 million (30 June 2018: asset of £41 million; 31 December 2018: asset of £40 million). The valuation is sensitive to movements in the euro swap curve. An increase of 100bps in the swap curve would decrease the aggregate value by £2 million (30 June 2018: £3 million; 31 December 2018: £2 million) and a decrease of 100bps would increase the aggregate value by £2 million (30 June 2018: £3 million; 31 December 2018: £2 million).

Also included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £132 million (30 June 2018: £131 million; 31 December 2018: £162 million) and £67 million (30 June 2018: £69 million; 31 December 2018: £96 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the EIOPA interest rate swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the net value by £13 million (30 June 2018: £12 million; 31 December 2018: £16 million) and a decrease of 100bps would increase the net value by £17 million (30 June 2018: £17 million; 31 December 2018: £22 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £9 million (30 June 2018: £9 million; 31 December 2018: £13 million) and a decrease of 1% would decrease the value by £8 million (30 June 2018: £10 million; 31 December 2018: £15 million).

Derivatives

Included within derivative assets are forward local authority loans and forward private placements with a value of £27 million (30 June 2018: £nil; 31 December 2018: £nil). These investments include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates. These investments are valued using a discounted cash flow model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity.

The credit spreads are derived from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £21 million (31 December 2018: £16 million) and a decrease of 35bps would increase the value by £23 million (31 December 2018: £17 million).

14.2.4 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2019

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Debt securities	192	14
Collective investment schemes	19	–

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy continued

14.2.4 Transfers of financial instruments between Level 1 and Level 2 continued

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 FVTPL upon initial recognition:		
Debt securities	36	45
Collective investment schemes	22	–

At 31 December 2018

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at FVTPL upon initial recognition		
Debt securities	86	162

Transfers of financial instruments in the current and comparative periods between Level 1 and Level 2 have resulted from the application of the Group's fair value hierarchy classification methodology at an individual security level, in particular with regard to measures of market depth and bid-ask spreads.

14.2.5 Movement in Level 3 financial instruments measured at fair value

30 June 2019

	At 1 January 2019 £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 2019 £m	Unrealised (losses)/ gains on assets held at end of period £m
Financial assets								
Derivatives	162	(3)	–	–	–	–	159	(3)
Financial assets designated at FVTPL upon initial recognition:								
Loans and deposits	3,189	111	655	(204)	–	–	3,751	100
Equities	1,369	(75)	127	(63)	201	–	1,559	(70)
Debt securities	1,217	80	113	(34)	16	–	1,392	73
Collective investment schemes	793	(61)	7	(12)	–	–	727	(62)
	6,568	55	902	(313)	217	–	7,429	41
Total financial assets	6,730	52	902	(313)	217	–	7,588	38

	At 1 January 2019 £m	Net gains 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 2019 £m	Unrealised gains on liabilities held at end period £m
Financial liabilities								
Derivatives	109	(34)	–	–	–	–	75	(34)
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	127	(10)	–	(13)	–	–	104	(10)
Total financial liabilities	236	(44)	–	(13)	–	–	179	(44)

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.

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy continued

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

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 FVTPL upon initial recognition:								
Loans and deposits	1,444	(2)	580	(72)	–	–	1,950	(2)
Equities	607	45	59	(83)	–	–	628	30
Debt 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

	At 1 January 2018 £m	Net gains 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 2018 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	100	(13)	–	–	–	–	87	(13)
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	182	–	–	(32)	–	–	150	–
Total financial liabilities	282	(13)	–	(32)	–	–	237	(13)

14. FINANCIAL INSTRUMENTS continued

14.2 Fair value hierarchy continued

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

31 December 2018

	At 1 January 2018 £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 2018 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets								
Derivatives	144	18	–	–	–	–	162	18
Financial assets designated at FVTPL upon initial recognition:								
Loans and deposits	1,444	56	1,833	(144)	–	–	3,189	66
Equities	607	205	839	(282)	–	–	1,369	147
Debt securities	411	(40)	884	(30)	–	(8)	1,217	(31)
Collective investment schemes	49	(51)	802	(7)	–	–	793	(47)
	2,511	170	4,358	(463)	–	(8)	6,568	135
Total financial assets	2,655	188	4,358	(463)	–	(8)	6,730	153

	At 1 January 2018 £m	Net 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 2018 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	100	11	–	–	–	(2)	109	11
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	182	2	–	(57)	–	–	127	2
Total financial liabilities	282	13	–	(57)	–	(2)	236	13

15. 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 2019 £m	Half year ended 30 June 2018 £m	Year ended 31 Dec 2018 £m
Profit/(loss) for the period before tax	**217**	(42)	259
Non-cash movements in profit for the period before tax			
Gain on acquisition	**–**	–	(141)
Fair value losses/(gains) on:			
Investment property	**40**	(24)	18
Financial assets and derivative liabilities	**(15,201)**	1,141	12,861
Change in fair value of borrowings	**–**	3	29
Amortisation of intangible assets	**202**	57	214
Change in present value of future profits	**(4)**	(5)	(1)
Change in unallocated surplus	**60**	21	(88)
Share-based payment charge	**6**	4	9
Finance costs	**79**	67	142
Net interest expense on Group defined benefit pension scheme liability/asset	**12**	3	6
Pension past service costs	**–**	–	57
Other costs of pension schemes	**3**	3	6
Decrease in investment assets	**4,182**	733	5,230
(Increase)/decrease in reinsurance assets	**(162)**	(201)	681
Increase/(decrease) in insurance contract and investment contract liabilities	**10,582**	(1,413)	(19,186)
Decrease in deposits received from reinsurers	**(60)**	(20)	(178)
Increase/(decrease) in obligation for repayment of collateral received	**914**	(386)	(568)
Net (increase)/decrease in working capital	**(242)**	(306)	329
Other items:			
Contributions to defined benefit pension schemes	**(23)**	(23)	(46)
Acquisition related expenses to be included within cash flows from investing activities	**–**	–	43
Cash generated/(utilised) by operations	**605**	(388)	(324)

16. RELATED PARTY TRANSACTIONS

The nature of the related party transactions of the Group has not changed from those referred to in the Group's 2018 consolidated financial statements.

On 31 August 2018, SLA plc took a 19.98% equity stake in the Enlarged Group, and as a result became a related party of the Group. SLA plc is considered to have a significant influence over the Group due to their equity stake and representation on the Board. The related party transactions with SLA plc are the only transactions considered to have a material effect on either the results or financial position of the Group as at 30 June 2019 and as a result an analysis of these transactions has been included below:

	Transactions Half year ended 30 June 2019 £m	**Balances outstanding Half year ended 30 June 2019 £m**	Transactions Year ended 31 Dec 2018 £m	Balances outstanding Year ended 31 Dec 2018 £m
SLA plc				
Investment management fees	**(120)**	**(59)**	(87)	(55)
Fees under Transitional Services Arrangement	**(3)**	**(1)**	(2)	(2)
Receipts under Transitional Services Arrangement	**40**	**15**	26	15
Net receipts under Client Service Proposition Agreement	**10**	**2**	5	2
Net receipts under deed of indemnity	**11**	**11**	–	–
Dividend paid	**(33)**	**–**	(33)	–

17. CONTINGENT LIABILITIES

17.1 Annuity sales

As outlined in notes G1 and I7.1 to the Group's 2018 consolidated financial statements, at the request of the Financial Conduct Authority ('FCA') SLAL are conducting a past business review of non-advised annuity sales. The purpose of the review is to identify whether relevant customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and where appropriate provide redress to customers who have suffered loss as a result of not having received sufficient information. The Group has recognised provisions with regard to its obligations identified as a result of activity to date.

In relation to this review, the FCA has been carrying out an investigation of SLAL's practices in this regard. At the time of finalisation of the Group's 2018 Annual Report and Accounts, it was not possible to determine a reliable estimate of any financial penalty that could have arisen as a result of the FCA investigation and a contingent liability disclosure was provided in this regard.

The FCA's review has now completed and SLAL received a final notice in July 2019 which imposed a financial penalty on the entity of £31 million. SLAL has agreed to settle in accordance with the final notice and accordingly a provision of that amount has been recognised as at 30 June 2019.

Under the terms of the Standard Life Assurance acquisition, SLA plc provided Old PGH with a deed of indemnity, with a duration of up to four years from the date of acquisition, relating to SLAL's review and redress programme in respect of historical non-advised sales of pension annuities, and the FCA's investigation of those sales practices.

The deed of indemnity covers regulatory fines and associated adviser fees, and accordingly, a reimbursement asset of £31 million has been recognised as at 30 June 2019 in other receivables in respect of amounts recoverable from SLA plc.

17.2 Legal proceedings

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.

18. EVENTS AFTER THE REPORTING PERIOD

On 6 August 2019, the Board declared an interim dividend per share of 23.4p for the half year ended 30 June 2019 (half year ended 30 June 2018: 22.6p). 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 2019 and will be charged to the statement of consolidated changes in equity when paid.

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies. 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 2019

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	2,915	2,137	5,312	6,196	16,560
Debt securities – gilts	4,165	351	14,771	5,222	24,509
Debt securities – bonds	12,847	1,820	25,488	32,779	72,934
Equity securities	136	49	15,681	72,062	87,928
Property investments	96	40	2,043	5,582	7,761
Other investments[4]	3,449	349	3,563	6,528	13,889
At 30 June 2019	**23,608**	**4,746**	**66,858**	**128,369**	**223,581**
Cash and cash equivalents in Group holding companies					315
Cash and financial assets in other Group companies					656
Financial assets held by the non-controlling interest in consolidated collective investment schemes					3,825
Total Group consolidated assets					**228,377**
Comprised of:					
Investment property					6,184
Financial assets					217,791
Cash and cash equivalents					5,218
Derivative liabilities					(816)
					228,377

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 £2,372 million, commercial real estate loans of £427 million, income strips of £674 million, policy loans of £11 million, other loans of £89 million, net derivative assets of £3,954 million, reinsurers' share of investment contracts of £5,603 million and other investments of £759 million.

31 December 2018

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	2,522	2,304	5,046	7,026	16,898
Debt securities – gilts	3,046	375	15,813	5,887	25,121
Debt securities – bonds	12,801	1,632	22,384	30,410	67,227
Equity securities	129	45	13,910	67,154	81,238
Property investments	101	44	2,046	6,074	8,265
Other investments[1]	2,948	192	2,844	6,279	12,263
At 31 December 2018	21,547	4,592	62,043	122,830	211,012
Cash and cash equivalents in Group holding companies					346
Cash and financial assets in other Group companies					582
Financial assets held by the non-controlling interest in consolidated collective investment schemes					2,990
Total Group consolidated assets					214,930
Comprised of:					
Investment property					6,520
Financial assets					204,577
Cash and cash equivalents					4,926
Derivative liabilities					(1,093)
					214,930

1 Includes equity release mortgages of £2,020 million, commercial real estate loans of £449 million, income strips of £654 million, policy loans of £9 million, other loans of £170 million, net derivative assets of £2,832 million, reinsurers' share of investment contracts of £5,417 million and other investments of £712 million.

The following table provides a reconciliation of the total life company assets to the Assets Under Administration ('AUA') as at 30 June 2019 (along with 31 December 2018 comparatives) detailed in the Business Review on page 5.

	At 30 June 2019 £bn	At 31 Dec 2018 £bn
Total Life Company assets	**223.6**	211.0
Off-balance sheet AUA[1]	**33.9**	31.1
Less: Standard Life Trustee Investment Plan assets[2]	**(12.8)**	(15.8)
Assets Under Administration	**244.7**	226.3

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

ADDITIONAL CAPITAL DISCLOSURES

PGH PLC SOLVENCY II SURPLUS

The estimated PGH plc surplus at 30 June 2019 is £3.0 billion (31 December 2018: £3.2 billion). The result assumes a dynamic recalculation of TMTP.

	30 June 2019 Estimated £bn	31 December 2018 £bn
Own Funds	**10.8**	10.3
SCR	**(7.8)**	(7.1)
Surplus	**3.0**	3.2

CALCULATION OF GROUP SOLVENCY

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

Under Method 2, the solo Own Funds are aggregated rather than consolidated on a line by line basis. The SCR is also aggregated, with no allowance for diversification. Method 2 is used for all entities within the Standard Life Assurance businesses and Method 1 is used for all other entities of the Group. The Group has approval to use a combination of Methods 1 and 2 for calculating its Group solvency results.

COMPOSITION OF OWN FUNDS

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

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

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

	30 June 2019 Estimated £bn	31 December 2018 £bn
Tier 1 – Unrestricted	**8.3**	7.8
Tier 1 – Restricted	**0.5**	0.5
Tier 2	**1.5**	1.5
Tier 3	**0.5**	0.5
Total Own funds	**10.8**	10.3

PGH plc's unrestricted Tier 1 capital accounts for 77% (31 December 2018: 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.

Restricted Tier 1 capital comprises the Tier 1 Notes issued in April 2018, the terms of which enable it to qualify as restricted Tier 1 capital for regulatory reporting purposes. There is no impact to the treatment of the restricted Tier 1 capital in the Group solvency calculation as a result of the PRA policy statement PS4/19 'Solvency II: Adjusting for the reduction of loss absorbency where own fund instruments are taxed on write down', issued during the period.

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

Tier 3 items include the Tier 3 subordinated notes of £0.4 billion (31 December 2018: £0.4 billion) and the deferred tax asset of £0.1 billion (31 December 2018: £0.1 billion).

BREAKDOWN OF SCR

The Group operates two PRA approved Internal Models, a Phoenix Internal Model covering all the pre-acquisition Phoenix entities and a Standard Life Internal Model which covers the acquired Standard Life Assurance entities, with the exception of the Irish entity, Standard Life International. Standard Life International calculates its capital requirements in accordance with Standard Formula. An analysis of the pre-diversified SCR of PGH plc is presented below:

	30 June 2019 estimated		31 December 2018	
	Phoenix Internal Model %	Standard Life Internal Model %	Phoenix Internal Model %	Standard Life Internal Model %
Longevity	**27**	**17**	26	15
Credit	**16**	**13**	18	13
Persistency	**11**	**26**	10	26
Interest rates	**10**	**9**	11	10
Operational	**6**	**8**	7	8
Swap spreads	**5**	**1**	2	1
Other market risks	**17**	**14**	16	16
Other non-market risks	**8**	**12**	10	11
Total pre-diversified SCR	**100**	**100**	100	100

MINIMUM CAPITAL REQUIREMENTS

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

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

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

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

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

PGH plc's MGSCR at 30 June 2019 is £1.2 billion (31 December 2018: £1.0 billion).

PGH plc's Method 1 Eligible Own Funds to cover MGSCR is £3.9 billion (31 December 2018: £4.2 billion) leaving an excess of Eligible Own Funds over MGSCR of £2.7 billion (31 December 2018: £3.2 billion), which translates to an MGSCR coverage ratio of 334% (31 December 2018: 408%). The Eligible Own Funds reflects a dynamic recalculation of TMTP. Had this not been performed, the surplus would have been £0.2 billion lower.

The MCR for the Method 2 part of the Group is £1.3 billion (31 December 2018: £1.1 billion), with Eligible Own Funds of £5.0 billion (31 December 2018: £4.2 billion), leaving an excess of Eligible Own Funds over MCR of £3.7 billion (31 December 2018: £3.1 billion), which translates to an MCR coverage ratio of 388% (31 December 2018: 377%).

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
Assets under Administration	The Group's Assets under Administration ('AUA') represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets. It includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 53.
Financial leverage ratio	Financial leverage is calculated by Phoenix (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent (excluding goodwill), the unallocated surplus and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's condensed statement of consolidated financial position on page 21 and and the analysis of borrowings note on page 40.
New business contribution	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year within the UK Open and European business segments, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure is considered a prudent proxy for the future cash generation that is expected to emerge over the life of contracts written in the period.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement. Further analysis is provided on page 5.
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The condensed statement of consolidated cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS statement of consolidated cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on page 3 and a breakdown of the Group's cash position by type of entity is provided in the additional life company asset disclosures section on page 52.
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 B1.2 to the 2018 IFRS consolidated 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 9 and in the financial statements on page 31.
Life Company Free Surplus	The Solvency II surplus of the life companies that is in excess of their Board approved capital management policies.	This figure provides a view of the level of surplus capital in the Life companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section page 8 for further analysis of the solvency positions of the life companies.
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 7 and the additional capital disclosures section on page 54.

ADDITIONAL INFORMATION

IN THIS SECTION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') was held on 2 May 2019 at 9.00am (BST).

The voting results for our 2019 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 PLC
The Pavilions,
Bridgwater Road,
Bristol,
BS99 6ZZ

Shareholder helpline number +44 (0) 370 702 0181
Fax number +44 (0) 370 703 6116
www.investorcentre.co.uk/contactus

SHARE PRICE

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

GROUP FINANCIAL CALENDAR FOR 2019

Announcement of unaudited six months' Interim Results	7 August 2019
Capital markets day	28 November 2019

2019 INTERIM DIVIDEND

Ex-dividend date	15 August 2019
Record date	16 August 2019
Interim 2019 dividend payment date	30 September 2019

FORWARD-LOOKING STATEMENTS

The 2019 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 2019 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2019 Interim Report or any other forward-looking statements it may make or publish.

The 2019 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 2019 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.

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

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