PHOENIX GROUP

INSPIRING **CONFIDENCE** IN THE FUTURE

PHOENIX GROUP HOLDINGS PLC
INTERIM REPORT 2020

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£433m
OPERATING COMPANIES' CASH GENERATION
APM REM

£4.0bn
GROUP SOLVENCY II SURPLUS (ESTIMATED)

169%
GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)
APM

23.4p
INTERIM DIVIDEND PER SHARE

£361m
OPERATING PROFIT
APM

+90%
CUSTOMER SATISFACTION SCORE
REM

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£486m
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£358m
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APM

£248bn
ASSETS UNDER ADMINISTRATION
APM

27%
FINANCIAL LEVERAGE RATIO
APM

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

All amounts throughout the report marked with APM are Alternative Performance Measures. Read more on page 64.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

COVID-19 has resulted in an unprecedented global crisis which has challenged each and every one of us as we undertake our day-to-day lives. The measures we have taken to reinforce Phoenix's resilience have ensured we have continued to generate cash and deliver growth throughout these uncertain times.

On 22 July we completed the acquisition of ReAssure Group plc and were delighted to welcome 3,000 new colleagues to our Group. The transaction is another milestone on Phoenix's growth journey and has established Phoenix as the largest long-term savings and retirement business in the UK. The transaction brings an additional £7 billion of long-term cash generation and has enabled us to increase our 2020 cash generation target range to £1.5 – £1.6 billion. We expect to deliver £800 million of cost and capital synergies by integrating the ReAssure business, which are in addition to the £1.2 billion of synergy benefits we remain on track to deliver from the acquisition of the Standard Life Assurance businesses.

OUR RESPONSE TO COVID-19

Phoenix's key priorities throughout the pandemic have been to support and ensure the safety of our colleagues, customers and of the communities in which we operate while protecting the long-term value of the Group.

Phoenix has demonstrated its agility in navigating this unprecedented situation by enabling 99% of our colleagues to work safely from home within 10 days of lockdown being announced. We have a strong focus on the health and well-being of our colleagues and have carried out a series of surveys to help us learn more and continue to respond with the most relevant support during this time. This is reflected in our colleague engagement statistics which show a 20% increase since September 2019 in pride and advocacy of working for Phoenix.

For our customers we have done our utmost to maintain a high standard of service whilst working from home, with customer satisfaction remaining above 90%. To ensure our phone lines remained available to those most in need of support, we actively promoted the use of our mobile app and website and as a result observed a marked increase in digital engagement with 41% more log-ins year on year. In addition, we implemented a series of customer initiatives including waiving the moratorium on COVID-19 related claims for newer SunLife customers, helping customers who originally took cheques to get BACS payments instead, and providing a dedicated contact line for frontline care workers.

We also lent our support to the communities in which we are present through volunteering and donations in order to mitigate the impacts of COVID-19. Phoenix donated £1 million to charitable organisations and also matched the value of any personal donations made by our colleagues. In addition we donated food, personal protective equipment and electronic devices such as iPads to aid local community groups.

DELIVERING ON OUR KEY ATTRIBUTES OF CASH, RESILIENCE AND GROWTH

During the first half of 2020 we have been particularly focused on preserving the capital position of the Group.

We adopt a dynamic approach to risk management aimed at bringing resilience to the Group's solvency position. Our resilience is reflected in the Group's strong financial performance during the first half of the year in the face of tumultuous financial markets and a disrupted economic and social environment. Together, Phoenix and ReAssure delivered £1.1 billion of cash generation in the period on a pro-forma basis and the Group is firmly on track to meet the new target range. There have been no changes to our financial targets or guidance as a result of the economic crisis.

It is this resilience that enabled the Group to pay its final 2019 dividend in May 2020 and supports the Board in paying a 2020 interim dividend of 23.4 pence per share, in line with the Group's stable and sustainable dividend policy. Phoenix recognises the importance of its role in society and is passionate about being a good custodian of our customers' savings. We are also very aware that dividends are an important income stream for retail savers and the funds they invest in.

Phoenix also delivered strong new business in the period generating £358 million of incremental long-term cash across our Open businesses and Bulk Purchase Annuities ('BPA'), a 41% increase year on year. Despite the economic downturn placing a strain on inflows in our retail business, our workplace business demonstrated resilience with inflows flat year on year and we saw reduced outflows across all business lines.

Group Chief Executive Officer's Report continued

LOOKING AHEAD

The drivers of change in the long-term savings and retirement industry have been accelerated by the COVID-19 crisis. Lower for longer interest rates and volatile equity markets mean insurers will be increasingly focused on freeing up capital by divesting their Heritage books, while corporates will seek to offload balance sheet risk arising from pension schemes through BPA transactions. In addition, exacerbated macroeconomic conditions have resulted in increased demand for protection and financial security products, and have also led to customers engaging and seeking guidance more directly with their pension providers.

These drivers closely align with our strategy of pursuing long-term value across three main avenues of growth: industry consolidation through M&A; Open workplace and retail business; and BPA. Through its unique business model Phoenix is therefore well positioned to take advantage of opportunities as they arise in the changing insurance landscape.

In the Open business segment we see our key opportunity to grow through the strong rise of defined contribution pension schemes with a market size of £24 billion per annum. We aim to be the first choice for our customers' life savings through our diverse range of products and continued investment in our customer proposition which enables us to remain relevant to our customers both through the accumulation and decumulation stages of the life savings cycle. In view of this, we have for example introduced an in-scheme drawdown feature for our Workplace Master Trusts which makes it easier for pension scheme members to remain within their scheme while accessing their pension savings. In addition, we are focusing on broadening our responsible investment options across our Workplace business and are currently developing a new ESG passive default fund in our Workplace proposition which will be launched in the second half of this year.

These enhancements are part of our proposition development and are in addition to the broader digitisation of our business which will create a single, open architecture operating platform that will be both agile and scalable and will enable us to become a cost-efficiency leader in the Workplace pensions market.

The £25 billion per annum BPA market remains buoyant and the short-term dislocation in pricing due to volatile financial markets has had a favourable effect for insurers. We will continue to participate on a selective and proportionate basis in this market whilst exploring the opportunity to put additional surplus capital to work.

Furthermore with an estimated market size of over £600 billion across the UK, Germany and Ireland there remains a wealth of consolidation opportunities. Our differentiated M&A and integration capabilities as well as our acquisition track record makes us market leaders in this space.

I made a number of new appointments to reinforce the breadth of our management team over the past months and am delighted to have a strong team in place whose sector experience and wealth of ideas will support our growth prospects.

In the next six months, we will remain focused on delivering against our cash and synergy targets, driving forward the ongoing transition work on both the Standard Life Assurance and ReAssure acquisitions while continuing to pursue growth opportunities.

The pandemic further highlights the importance of sustainability and underscores our commitment to a sustainable future and building an enduring organisation. As part of our sustainability vision of 'committing to a sustainable future' we are raising the bar for our environmental, social and governance agenda as we continually seek to improve the relationship between business and sustainability. Sustainable investments is an area where we see an opportunity to make a positive impact and so far this year we have invested £340 million in sustainability themed assets. In March, Phoenix also became a signatory to the Task Force on Climate-related Financial Disclosures and in June, the Group actively participated in the 2020 'Carers Week', an initiative supported by Phoenix's own Carers Network.

BOARD CHANGES

Following completion of the ReAssure acquisition, two new Directors joined the Board as part of our relationship agreements with the Swiss Re Group and MS&AD, having become new strategic shareholders in the Group. We are delighted to welcome Christopher Minter from Swiss Re and Hiroyuki Iioka from MS&AD to the Board. They bring substantial experience and executive skills to our Board and additional international perspectives.

Also following completion of the ReAssure transaction, Campbell Fleming from Standard Life Aberdeen has left the Board due to its reduced shareholding following the completion of the ReAssure transaction. On behalf of the Board I would like to thank Campbell for his excellent and insightful contribution since joining the Board at the start of Phoenix's strategic partnership with Standard Life Aberdeen.

THANK YOU

I am proud of our achievements in the first half of the year, delivered under extraordinary circumstances and would like to extend my warmest thanks to our colleagues for the unwavering commitment they have demonstrated during these challenging times.

Andy Briggs
Group Chief Executive Officer
5 August 2020

BUSINESS REVIEW

IN THIS SECTION

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 64 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 £433 million (HY19: £287 million). Cash generation is reported net of a £50 million contribution into the Group's Irish domiciled subsidiary, Standard Life International, in order to strengthen its capital position following the fall in yields experienced in the period.

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m
Cash and cash equivalents at 1 January	**275**	346
Operating companies' cash generation:		
Cash receipts from Life Companies[1]	**483**	537
Cash remittances to Standard Life International	**(50)**	(250)
Total cash receipts	**433**	287
Uses of cash:		
Operating expenses	**(19)**	(19)
Pension scheme contributions	**(23)**	(23)
Debt interest	**(56)**	(34)
Total operating cash outflows	**(98)**	(76)
Non-operating cash inflows/(outflows)	**50**	(41)
Uses of cash before debt repayments and shareholder dividend	**(48)**	(117)
Shareholder dividend	**(169)**	(169)
Total uses of cash	**(217)**	(286)
Debt issuance (net of fees)	**1,445**	–
Support of BPA activity	**(90)**	(32)
Cash and cash equivalents at 30 June	**1,846**	315

1 Includes £82 million received by the holding companies in respect of tax losses surrendered (HY19: £90 million).

All amounts in the Business Review section marked with an 'APM' are alternative performance measures. See the APM section on page 64 for further details of these measures.
All amounts in the Business Review section marked with a 'REM' are KPIs linked to Executive Remuneration.

Cash Generation continued

CASH OUTFLOWS
The operating expenses of £19 million (HY19: £19 million) are in line with the 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 (HY19: £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 £56 million (HY19: £34 million) increased in the period as a result of the cash settlement of a full annual coupon on the €500 million Tier 2 bond issued in September 2018 and the first coupon on the US$750 million Tier 1 bond issued in January 2020.

NON-OPERATING NET CASH INFLOWS
Non-operating net cash inflows of £50 million (HY19: £41 million outflow) includes £115 million of cash realised or posted as collateral in respect of derivative instruments entered into by the holding companies to hedge the Group's exposure to currrency and equity risk, partly offset by £67 million of recharged staff costs and Group expenses associated with corporate-related projects including the transition programme. Net other inflows total £2 million.

SHAREHOLDER DIVIDEND
The shareholder dividend of £169 million represents the payment of the 2019 final dividend in May.

DEBT ISSUANCE (NET OF FEES)
The £1,445 million debt issuance comprises the net proceeds of the £572 million (US$750 million) Tier 1 Note in January, the £500 million Tier 2 bond issuance in April and the £398 million (US$500 million) Tier 2 bond issuance in June.

SUPPORT OF BPA ACTIVITY
£90 million (HY19: £32 million) of funding has been provided to the life companies to support BPA new business.

TARGET CASH FLOWS
The Group had a 2020 target for cash generation of £800 million to £900 million. Following the acquisition of the ReAssure Group plc ('ReAssure'), the 2020 cash generation guidance has been updated to £1.5 billion to £1.6 billion.

Further details of this, the combined Group's cash generation guidance for the period 2020 to 2023 and the resilience of the combined Group's future cash generation is provided on page 15.

£433m

OPERATING COMPANIES' CASH GENERATION
APM REM

CAPITAL MANAGEMENT

GROUP SOLVENCY II SURPLUS

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

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

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

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

£4.0bn

GROUP SOLVENCY II SURPLUS (ESTIMATED)

169%

GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

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

	Estimated position as at 30 June 2020 £bn	Estimated position as at 31 December 2019 £bn
Own Funds[1]	**12.7**	10.8
SCR[2]	**(8.7)**	(7.7)
Surplus[3]	**4.0**	3.1

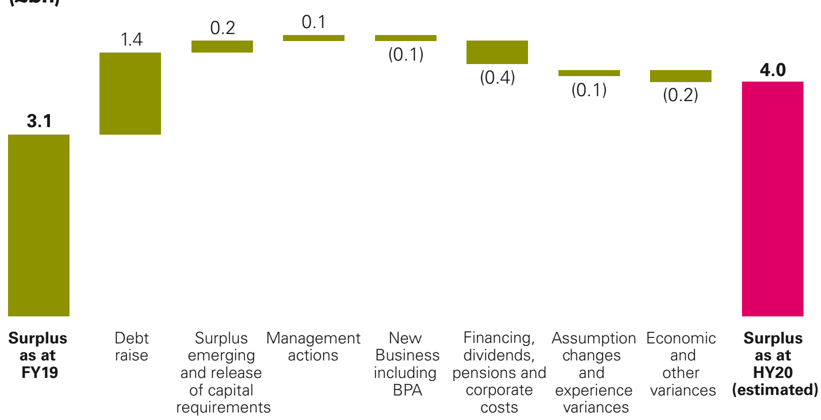
1 Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months and net of the impact of a dynamic recalculation of transitionals.

2 The SCR reflects the risks and obligations to which Phoenix Group Holdings plc is exposed.

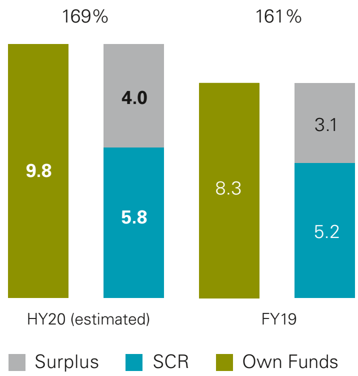
3 The surplus equates to a regulatory coverage ratio of 146% as at 30 June 2020 (FY19: 140%).

Capital Management continued

Change In Group Solvency II Surplus (£bn)



Group Shareholder Capital Coverage Ratio (£bn)



CHANGE IN GROUP SOLVENCY II SURPLUS (ESTIMATED)

The Group Solvency II surplus has increased to £4.0 billion (FY19: £3.1 billion).

Proceeds from the issuance of hybrid debt (net of issue costs) increased the surplus by £1.4 billion. This included the issuance of the US$750m Restricted Tier 1 bond and £500m Tier 2 bond to fund the cash consideration for the acquisition of ReAssure and a further US$500m Tier 2 bond issued with the proceeds providing additional flexibility for the refinancing of existing Phoenix borrowings.

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

Management actions undertaken increased the surplus by £0.1 billion. This includes further investment in Equity Release Mortgages ('ERM') assets, additional strategic asset allocation activities and the optimisation of matching adjustment portfolios.

The impact of new business written during the year reduced the surplus by £0.1 billion. This primarily reflects the capital strain associated with Bulk Purchase Annuity ('BPA') transactions executed in the period.

Financing costs, pension contributions, dividend payments (including accrual for the 2020 interim dividend) and corporate expenses amount to £0.4 billion and reduced the surplus in the period.

Assumption changes and experience variances decreased the surplus by £0.1 billion and include an increase to the provision for the expected costs associated with the delivery of the Standard Life transition programme and the strengthening of actuarial assumptions in respect of ERM and persistency.

The adverse impact of economic and other variances reduced the surplus by £0.2 billion, driven by the net adverse impact of economic and market movements in the period, notably falling yields and property prices, together with the widening of credit spreads and downgrades experienced during the period.

Capital Management continued

GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and unsupported Group pension schemes of £2.0 billion (FY19: £2.1 billion). Surpluses within the with-profit funds and the Group Pension Schemes, whilst not included in the Solvency II surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

In the calculation of the Solvency II surplus, the SCR of the unsupported with-profit funds and the unsupported Group Pension Schemes is included, but the related Own Funds are recognised only to a maximum of the SCR amount. This approach suppresses the regulatory capital coverage ratio calculated as eligible own funds as a percentage of SCR.

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

The Group targets a shareholder capital coverage ratio in the range of 140% to 180%. As at 30 June 2020, the Group Shareholder Capital Coverage ratio is 169% (FY19: 161%).

Please see the APM section on page 64 for further details of this measure.

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 on page 16 and demonstrate the resilience of the Solvency II surplus for the Combined Group, post the acquisition of ReAssure.

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 2020, the Life Company Free Surplus is £0.7 billion (FY19: £1.2 billion). The table below analyses the movement during the period.

As the analysis is presented on a net of tax basis, cash remittances to the holding companies excludes £82 million of amounts received by the holding companies in respect of tax losses surrendered to the Life companies that is included in the Group's Cash Generation metric.

	Estimated position as at 30 June 2020 £bn
Opening Free Surplus	1.2
Surplus generation and run-off of capital requirements	0.2
Management actions	0.1
New business	(0.1)
Economic, financing and other	(0.4)
Free Surplus before cash remittances	1.0
Cash remittances to holding companies	(0.4)
Cash remittances from holding companies	0.1
Closing Free Surplus	0.7

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 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, whilst AUA flows provide a measure of the Group's ability to deliver new business growth.

Please see the APM section on page 64 for further details of this measure.

GROUP AUA

Group AUA as at 30 June 2020 was £248.3 billion (2019: £248.3 billion). Net outflows from the Group's UK Heritage business were offset by net inflows from the Group's UK Open and European businesses as well as the net positive impact of market movements, where the impact of falling yields more than offset the impact of declining equity markets, widening credit spreads and falling property prices.

UK HERITAGE NET FLOWS

UK Heritage net outflows of £1.8 billion (HY19: £2.6 billion) reflect 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 (HY19: £0.5 billion) of new business inflows arising from BPA transactions completed in the period.

Three BPA transactions were completed in the period, reflecting the Group's selective and proportionate approach to its participation in this market. The Group continues to evaluate the opportunities in the current market, ensuring any future transaction meets the required rates of return.

UK OPEN FLOWS

The UK Open segment experienced gross inflows of £4.5 billion (HY19: £4.8 billion) during the period, of which £2.6 billion (HY19: £3.1 billion) was received in respect of new contracts transacted in the period.

Market uncertainty arising from COVID-19 impacted gross inflows in the first six months of 2020 and is expected to place continued pressure on inflows during the second half of the year. However, there is progress being made within the Workplace proposition, including the launch of an ESG passive default fund and plans to generate inflows within the Wrap and Retail product lines through digital enhancements.

Gross inflows in the Workplace product of £2.4 billion (HY19: £2.3 billion) are in line with the prior period.

Gross inflows in the Wrap product of £1.3 billion (HY19: £1.5 billion) were adversely impacted by challenging market conditions, notably COVID-19 related market uncertainty.

Retail products experienced gross inflows of £0.8 billion (HY19: £1.0 billion).

Outflows for the UK Open business were £3.3 billion (HY19: £4.0 billion) resulting in net inflows of £1.2 billion (HY19: £0.8 billion). Market uncertainty arising from COVID-19 has driven a retention of policies.

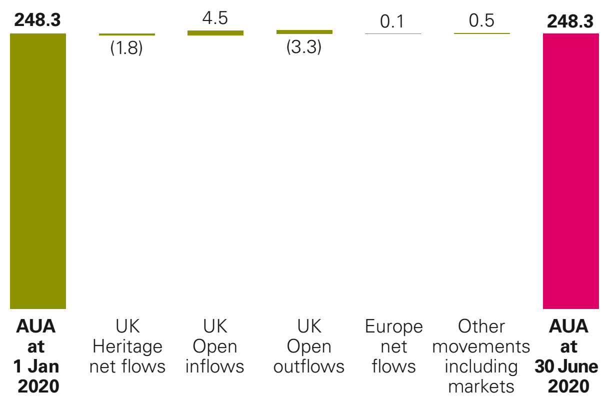
EUROPE NET FLOWS

The European business contributed a small net inflow of £0.1 billion (HY19: £0.2 billion outflows) to the Group's AUA.

OTHER MOVEMENTS INCLUDING MARKETS

AUA increased by £0.5 billion as a result of other movements, most notably the net positive impact of market movements detailed above.

Movement In AUA (£bn)



Assets Under Administration and New Business continued

NEW BUSINESS CONTRIBUTION

In respect of the Open and Europe business segments, the Group monitors new business contribution as its 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 £70 million (HY19: £119 million). This includes £67 million (HY19: £115 million) from the Group's UK Open business, which was adversely impacted by market uncertainty arising from COVID-19 and where the prior period comparative benefited from the impact of statutory auto-enrolment increases in the Group's workplace business; and £3 million (HY19: £4 million) from the European business.

LONG-TERM CASH GENERATION

As a result of new business transacted in the year, long-term cash generation is expected to increase by £358 million (HY19: £254 million), comprising £122 million from the UK Open and European business segments (HY19: £164 million) and £236 million from BPA transactions (HY19: £90 million).

Consistent with the impact seen on New Business Contribution, the UK Open long-term cash generation in HY19 benefited by circa £50 million as a result of statutory auto-enrolment increases in this period.

£358m

INCREMENTAL LONG-TERM CASH GENERATION

£248bn

ASSETS UNDER ADMINISTRATION

£70m

UK OPEN AND EUROPE NEW BUSINESS CONTRIBUTION

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 64 for further details of this measure.

The Group has generated an operating profit of £361 million (HY19: £325 million). The increase compared to the prior period is driven by higher new business profits on BPA transactions executed during the first half of the year. This has been partly offset by the lower positive impact of management actions and model and methodology changes within operating profit compared to the prior period.

IFRS PROFIT AFTER TAX

The IFRS profit after tax attributable to owners is £486 million (HY19: £39 million). The increase primarily reflects the improved operating profit and net positive economic variances arising on hedging positions held by the life companies to protect the Group's Solvency II surplus position, compared to net negative variances in the prior period.

BASIS OF OPERATING PROFIT

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

The principal assumptions underlying the calculation of the long-term investment return are set out in note 3 to the IFRS condensed consolidated interim financial statements.

Profit/(loss) after tax	**Half year ended 30 June 2020 £m**	Half year ended 30 June 2019 £m
UK Heritage	**281**	257
UK Open	**58**	43
Europe	**20**	28
Management Services companies	**19**	13
Group costs	**(17)**	(16)
Operating profit	**361**	325
Investment return variances and economic assumption changes on long term business	**600**	(81)
Variance on owners' funds	**27**	(3)
Amortisation of acquired in-force business, customer relationships and other intangibles	**(184)**	(199)
Other non-operating items	**(65)**	(32)
Profit before finance costs and tax attributable to owners	**739**	10
Finance costs attributable to owners	**(76)**	(63)
Profit/(loss) before the tax attributable to owners of the parent	**663**	(53)
(Loss)/profit before tax attributable to non-controlling interests	**(20)**	2
Profit/(loss) before tax attributable to owners	**643**	(51)
Tax (charge)/credit attributable to owners	**(157)**	90
Profit after tax attributable to owners	**486**	39

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.

IFRS Results continued

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 £57 million (HY19: £58 million) is in line with prior period and represents the shareholders' one-ninth share of the policyholder bonuses.

The with-profit funds where internal capital support has been provided generated an operating loss of £14 million (HY19: £10 million loss), driven by the impact of updating actuarial assumptions related to persistency of products with valuable guarantees in relation to late retirements.

The non-profit and unit-linked funds operating profit increased to £230 million (HY19: £207 million), reflecting the higher new business profits on BPA transactions entered into in the period. This has been partly offset by lower net positive demographic experience and the recognition of the positive impact of modelling changes in the comparative period.

UK Heritage operating profit	**Half year ended 30 June 2020 £m**	Half year ended 30 June 2019 £m
With-profit	**57**	58
With-profit where internal capital support provided	**(14)**	(10)
Non-profit and unit linked	**230**	207
Long-term return on owners' funds	**8**	2
UK Heritage operating profit before tax	**281**	257

£361m

OPERATING PROFIT

£486m

IFRS PROFIT AFTER TAX

The long-term return on owners' funds of £8 million (HY19: £2 million) reflects an improved return on owners' assets, primarily cash-based assets and fixed interest securities, partly offset by the impact of expenses borne by the shareholder.

UK OPEN OPERATING PROFIT

The Group's UK Open business segment delivered an operating profit of £58 million (HY19: £43 million). This includes operating profits generated across the Workplace, Retail and Wrap product lines, including new business distributed through our Strategic Partnership with Standard Life Aberdeen plc and under the Group's SunLife brand. The increase compared to the prior period reflects higher SunLife volumes and the positive impact of updates to persistency assumptions.

EUROPE OPERATING PROFIT

The Europe business segment which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £20 million during the year (HY19: £28 million). The reduction in operating profit relative to prior period is primarily driven by adverse experience and the impact of modelling changes.

MANAGEMENT SERVICES COMPANIES OPERATING PROFIT

The operating profit for management services of £19 million (HY19: £13 million) comprises income from the life and holding companies in accordance with the respective management services agreements less fees related to the outsourcing of services and other operating costs. The increase compared to the prior period is principally driven by the margins arising on a management services agreement that is now in place in respect of the acquired Standard Life Assurance businesses, partly offset by the impacts of run-off.

IFRS Results continued

GROUP COSTS

Group costs in the period were £17 million (HY19: £16 million). They primarily comprise project recharges from the service companies and the returns on the scheme surpluses/deficits of the Group staff pension schemes.

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

The net positive investment return variances and economic assumption changes on long-term business of £600 million (HY19: £81 million negative) primarily arise as a result of gains on hedging positions held by the life funds following equity market losses during the first half of the year. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. In addition, there were positive impacts from falling fixed interest yields in the period. These positive impacts have been partly offset by widening credit spreads experienced during the first half of the year.

VARIANCE ON OWNERS' FUNDS

The positive variance on owners' funds of £27 million (HY19: £3 million negative) is driven by gains on interest rate hedging positions held within the shareholder funds of the life companies, together with gains arising on derivative instruments entered into on announcement of the ReAssure acquisition to protect the Group's exposure to equity risk in the period prior to completion. These gains have been partly offset by losses on foreign currency swaps held by the holding companies to hedge exposure of future life company profits to movements in exchange rates.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates. Amortisation of acquired in-force business during the first half of the year totalled £174 million (HY19: £189 million) and amortisation of other intangible assets totalled £10 million in the first half of year (HY19: £10 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £65 million negative (HY19: £32 million negative) includes £48 million related to the provision of costs associated with the delivery of the Group Target Operating Model for IT and Operations, £7 million of costs associated with the acquisition of ReAssure, other corporate project costs of £4 million and net other items totalling an expense of £6 million.

The prior period result included £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 included £7 million of costs associated with preparations to ready the business for Brexit and net other positive items totalling £1 million of income.

IFRS Results continued

FINANCE COSTS

Finance costs of £76 million (HY19: £63 million) have increased by £13 million, reflecting the debt raised in the period to fund the acquisition of ReAssure; including the £572 million (US$750 million) Tier 1 Note issuance in January, the £500 million Tier 2 bond issuance in April and the £398 million (US$500 million) Tier 2 bond issuance in June.

TAX CREDIT ATTRIBUTABLE TO OWNERS

The Group tax charge for the period attributable to owners is £157 million (2019: £90 million credit) based on a profit (after policyholder tax) of £643 million (2019: £51 million loss). The deviation from the expected tax charge of £122 million (2019: £10 million credit) based on profits attributable to owners is primarily due to the impact of the cancelled corporation tax rate reduction (to remain at 19%) of £46 million, a prior year credit for shareholders of £7 million, deferred tax credit for recognition of previously unrecognised tax losses of £7 million, current year tax losses not valued of £6 million and a credit in respect of profits taxed at a rate other than the UK statutory rate of £8 million.

See note 4 to the IFRS condensed consolidated interim financial statements for further analysis.

FINANCIAL LEVERAGE

The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions. The financial leverage ratio as at 30 June 2020 (as calculated by the Group in accordance with Fitch Ratings' stated methodology) is 27% (2019: 22%).

Leverage has increased in the period as a result of the debt issued in the period to fund the ReAssure acquisition which completed on 22 July 2020, but remains within the target range of 25% to 30% which management considers to be associated with maintaining an investment grade rating.

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

ACQUISITION OF REASSURE

The Group completed the acquisition of ReAssure Group plc and its subsidiaries ('ReAssure') on 22 July 2020 for a consideration of £3.1 billion, consisting of £1.3 billion of cash and the issuance of shares with a value of £1.8 billion (as calculated on 22 July 2020). This section provides an overview of the impact of the transaction on certain of the Group's key performance indicators as if the acquisition had taken place on 30 June 2020; and provides further details on the cash generation outlook and resilience of the Combined Group.

TARGET CASH FLOWS

The acquisition of ReAssure was based on the value of the business as at 30 September 2019. All economic flows after this date, including cash generation, are therefore attributable to the Group. During the period to 30 June 2020, ReAssure delivered £690 million of cash generation, including £290 million from the Old Mutual Wealth business it acquired on 31 December 2019.

The Combined Group therefore delivered £1.1 billion of cash generation in the period.

The Group has updated its 2020 cash generation guidance, increasing the Phoenix only target of £800 million – £900 million to reflect the £690 million of cash generation delivered by ReAssure. The Combined Group's short-term cash generation target including ReAssure is now set at £1.5 billion to £1.6 billion.

The Group had a cash generation target of £3.9 billion for the five year period 2019-2023, of which £0.7 billion was achieved during 2019. The cash generation guidance has been amended to reflect the £2.7 billion of cash expected to arise from ReAssure in the period 2020 to 2023.

EXPECTED CASH FLOWS AFTER 2024

There is an expected £13.1 billion of cash to emerge from the Combined Group in the years 2024 onwards. 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 written after 31 December 2019. It also does not reflect the impact of any future M&A.

CASH

Cash generation guidance £bn	Phoenix Group	ReAssure	Combined Group
2020	0.8 - 0.9	0.7	1.5 -1.6
2020 to 2023	3.2	2.7	5.9
2024 +	8.8	4.3	13.1
Total	**12.0**	**7.0**	**19.0**

CAPITAL MANAGEMENT

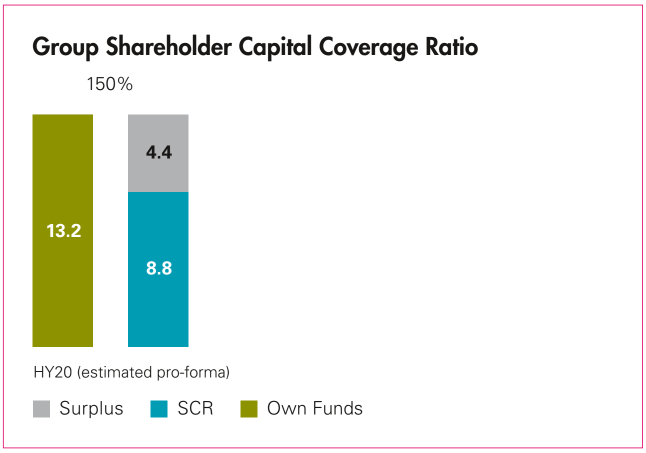
A pro-forma Solvency II capital position for the Combined Group is set out below. The ReAssure businesses determine their capital requirements in accordance with the Standard Formula and will be aggregated with the outputs of the Phoenix Internal Model, the Standard Life Internal Model and Standard Life International's Standard Formula in the Combined Group's SCR position.

£4.4bn

PRO-FORMA GROUP SOLVENCY II SURPLUS (ESTIMATED)

150%

PRO-FORMA GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)



Acquisition of ReAssure continued

The pro-forma Group Solvency II surplus position at 30 June is set out in the table below:

	Estimated pro-forma position as at 30 June 2020 £bn
Own Funds[1]	16.3
SCR[1]	(11.9)
Surplus[2]	4.4

1 The pro-forma position assumes the acquisition of the ReAssure businesses and the novation of equity hedging instruments from the Group's holding companies to ReAssure Assurance Limited had taken place on 30 June 2020.

2 The surplus equates to a regulatory coverage ratio of 137% as at 30 June 2020. The Solvency II capital position for ReAssure used in the pro forma is an estimated position and reflects a dynamic recalculation of transitionals for the ReAssure Life companies. It also reflects a change in methodology in the transitionals recalculation that is subject to regulatory approval. Had this not been assumed, the Solvency II surplus and Shareholder Capital Coverage Ratio would decrease by £0.1 billion.

The resilience of the Combined Group's four-year cash generation guidance and its Solvency II Surplus is demonstrated by the illustrative stress testing in the table below.

Ilustrative stress testing[1]	Cash generation guidance 1 Jan 2020 to 31 Dec 2023 £bn	Estimated pro-forma Solvency II surplus £bn
Base case four-year cash guidance/ Solvency II Surplus	5.9	4.4
Following a 20% fall in equity markets	5.9	4.3
Following a 12% fall in property values	5.7	4.2
Following a 73bps interest rates rise[2]	6.1	4.4
Following a 88bps interest rates fall[2]	5.6	4.3
Following credit spread widening[3]	5.7	4.1
Following credit downgrade: immediate full letter downgrade on 20% of portfolio[4]	5.2	3.9
Following 6% decrease in annuitant mortality rates[5]	5.1	3.6
Following a 10% change in lapse rates[6]	5.7	4.1

1 Assumes stress occurs on 1 July 2020.

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

3 Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.

4 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc). This sensitivity assumes no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.

5 Equivalent of six months increase in longevity applied to the annuity portfolio.

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

GROUP AUA

£324bn

PRO-FORMA ASSETS UNDER ADMINISTRATION

The pro-forma AUA assumes that the acquisition of the ReAssure businesses and the Part VII of the Legal and General Mature Savings business (expected to occur in the second half of 2020) had taken place on 30 June 2020.

POLICIES

c.14m

Includes 4 million of policies related to the ReAssure businesses.

RISK MANAGEMENT

IN THIS SECTION

RISK MANAGEMENT

THE GROUP'S RISK MANAGEMENT FRAMEWORK

The Group has completed the design and implementation of a harmonised Risk Management Framework ('RMF') following the acquisition of Standard Life Assurance Limited. The harmonised RMF embeds proactive and effective risk management across the Group; it seeks to ensure that risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes.

The harmonised RMF will enable us to manage the risks and opportunities that the enlarged Group will face following the acquisition of ReAssure Group plc. The RMF has been successfully utilised throughout the Group's previous acquisitions; activity is already underway to understand and prioritise the sequencing of activity in support of the RMF roll-out to ReAssure Group plc. The RMF will be rolled out and embedded into ReAssure Group plc until the end of 2021.

"THE GROUP HAS RESPONDED WELL TO THE CHANGING RISK ENVIRONMENT PRESENTED BY THE COVID-19 PANDEMIC."

Jonathan Pears
Group Chief Risk Officer

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's principal risks and uncertainties are detailed in this section, together with their potential impact, mitigating actions in place, links to the Group's strategic priorities and changes in the risk from the Group's 2019 Annual Report and Accounts, published in March 2020.

In response to the COVID-19 pandemic Phoenix Group has taken, and is taking, significant steps to support and protect its colleagues, customers and the communities where we operate. Led by our senior leadership team, we are using our established business continuity framework to manage our response. We have maintained consistent customer service, with the vast majority rating our service 'good' or 'excellent'. With the exception of employees carrying out critical processes at our sites (c.1% that are all socially distanced), all of our c.4,400 employees (pre-ReAssure Group plc acquisition) are set up to work from home other than a small number that cannot fulfil their role from home.

COVID-19 has potential to impact risks across the Group's Risk Universe; there are short-term and long-term financial consequences for Phoenix and its customers, and potential for Phoenix's strategic objectives to be adversely impacted by the pandemic. The Group has utilised its RMF to effectively respond to quickly evolving changes arising from COVID-19; for example, the development of a range of COVID-19 stresses to assess the resilience of the Group to a range of potential adverse outcomes of the pandemic. A number of other risk-mitigating actions have been taken, directed by the RMF, to protect the Group's resilience against the impacts of COVID-19. Commentary concerning the associated risks and mitigants has been included within the Group's principal risks outlined below.

The Group's Risk function has been actively involved in the ReAssure Group plc acquisition to ensure appropriate consideration and validation of the potential financial and non-financial risk exposures arising from the transaction. There is good alignment of principal risks and uncertainties between Phoenix Group and ReAssure Group plc. As part of our 2020 Annual Report, to be published March 2021, we will provide an update on our principal risks which will fully reflect the impact of the ReAssure Group plc acquisition on the enlarged Group's risk profile.

KEY

Change in risk	Strategic priorities
Risk Improved	1 Improve Customer Outcomes
= No Change	2 Drive Value
Risk Heightened	3 Manage Capital
N New Principal Risk	4 Engage Colleagues

Risk Management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2019 Annual Report
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. The Group continues to assess new Merger & Acquisition and BPA opportunities. The Group continues to actively manage operational capacity required to deliver its strategy; this includes transition activity. An operational capacity dashboard is regularly reviewed by both Life and Group Boards.	1 2 3	No Change Execution of the Standard Life Assurance Limited transition into the Group continues; we remain on track to deliver our £1.2 billion synergy targets. On 22 July Phoenix completed the acquisition of ReAssure Group plc; this brings additional scale to Phoenix's Heritage business and enhances our key attributes of cash generation, resilience and growth. This transaction met all of our acquisition criteria: it is value accretive; it supports our dividend; and it is consistent with maintenance of our investment grade rating. The Group anticipates £0.8 billion in cost and capital synergies as a result of this acquisition. The intention is for ReAssure Group plc to largely run initially as a ring-fenced business within the Group, with integration activities initially focusing on the Group functions of Audit, Legal and Risk. In H1 2020 Phoenix completed three BPA transactions with a combined premium of £1.1 billion.
The Group's Strategic Partnerships fail to deliver the expected benefits	Our Strategic Partnerships are a core enabler for delivery of the Group's strategy; they allow us to meet the needs of our customers and clients, and deliver value for our shareholders. Phoenix's end state operating model will leverage the strengths of our strategic partners whilst retaining in-house key skills which differentiate us. There is a risk that the Group's strategic partnerships do not deliver the expected benefits. Some of our key partnerships include: The Strategic Partnership with Standard Life Aberdeen plc ('SLA plc') is expected to provide additional growth opportunities through our Open business. In addition, SLA plc provides investment-management services to around two-thirds of our assets under administration pre-ReAssure Group plc acquisition. Our enlarged partnership with TCS is also expected to support growth plans for our Open business, enabling further digital and technology capabilities to be developed to support enhanced customer outcomes. The Group is continuing its plan to transfer all fund-accounting services to HSBC, enlarging and enhancing our current partnership.	The Joint Operating Forum ('JOF') between SLA plc and Phoenix continues to develop the partnership with SLA plc in existing areas, and to identify areas for future growth and partnership, for the benefit of customers and shareholders of each Group. The JOF also oversees the operation of the Client Service and Proposition Agreement ('CSPA'), ensuring that each of the parties to the CSPA is performing against their CSPA obligations. The Transitional Services Agreement ('TSA') Oversight Committee between SLA plc and Phoenix oversees TSA performance and activity to exit the TSAs in future. The Group's engagement with Diligenta, and its parent TCS, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of our enlarged partnership. We have in place established processes to oversee services provided by HSBC.	1 2	No Change The Group continues to effectively develop the partnership with TCS as they support our strategic deliverables. Most notably, the blueprint for Phase 3 of the Group's Standard Life Assurance Transition activity has been finalised and signed with TCS, noting a significant milestone in progressing transition activity. Other strategic activity involving both parties continues to be assessed for COVID-19 impacts; actions are being taken to protect project timelines. As noted in our 2019 Annual Report, the Group is currently engaged in ongoing discussions with members of the Standard Life Aberdeen group in respect of disagreements over the operation of certain aspects of the share purchase agreement with SLA plc relating to services and expenses, and the scope and cost of services provided pursuant to the TSA, the CSPA and certain other agreements between the Group and members of the Standard Life Aberdeen group. The Group and SLA plc are currently seeking a commercial resolution to this. We have worked with our strategic partners to effectively reprioritise our change management activity as a result of COVID-19 implications.

Risk Management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2019 Annual Report
Strategic risk				
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 The Group continues to focus on delivering its comprehensive Proposition Development Plan, particularly in respect of its Workplace business. In July, we launched in-scheme drawdown to our Defined Contribution Master Trust pension scheme proposition. The launch allows members to access their pension savings from within their scheme, and includes new investment options to support good customer outcomes. A number of initiatives have been progressed to support customers, clients and advisers during the COVID-19 pandemic.
The Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks	The Group is exposed to market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition, there are long-term market, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). The Group is also exposed to the risk of failing to respond to wider ESG risks; for example failing to meet our corporate and social responsibility commitments. COVID-19 has amplified expectations of the Group's delivery of its social purpose and sustainability vision; shortfalls in these areas could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness and reputational risks.	The Group continues to progress actions outlined in our Sustainability Report. The Group became a signatory to the Task Force on Climate-related Financial Disclosures ('TCFD') in March 2020; a Group-wide project has now been initiated to implement various TCFD recommendations for the Group's year-end 2020 Annual Report and Accounts. ESG risk considerations are being incorporated into the Group's Risk Management Framework. All Risk Policies are being refreshed to consider climate change impacts; a new Sustainability Risk Appetite Statement has also recently been approved. The Group is actively engaged with our regulators to pursue all climate change and ESG-related deliverables.	1 2 3	No Change The Group has continued to embed ESG risks and opportunities within its strategic planning process. The PRA issued feedback on all firms' responses to SS3/19 ('Enhancing Banks' and Insurers' approaches to managing the financial risks from climate change') and noted approaches to managing climate-related financial risks should be embedded by the end of 2021. The Group is on track to achieve this and continues to utilise the PRA/FCA Climate Financial Risk Forum guidance to inform and support activity.

Risk Management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2019 Annual Report
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 Conduct Risk Appetite sets the boundaries within which the Group expects customer outcomes to be managed. This consists of a set of principles and standards for all Group colleagues to follow to meet the changing needs of our customers and our business. The Group Conduct Risk Framework, which overarches our Risk Universe and all risk policies, is designed to detect where our customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions. The Group also has a suite of customer policies which set out key customer risks and minimum control standards in place to mitigate them. We maintain a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes.	1	= No Change The Group and its OSPs have maintained consistent customer service levels throughout the pandemic. In addition, we have updated our customer-facing websites to provide answers to key COVID-19 related questions being asked by our customers, as well as key considerations for customers when making decisions about their life savings during this period of uncertainty. COVID-19 has potential to change customer behaviour towards saving; as the pandemic has evolved the Group has put in place processes to identify unusual customer behaviour that may lead to poor outcomes. To support our most vulnerable customers, we have created dedicated contact routes and have invested in staff training on recognising and responding to financial hardship. We are continuing to provide a phone service and are encouraging the use of our website or app wherever possible to further support those customers.
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 we can continue to service our non-UK policyholders after the UK leaves the EU.	1 3	= No Change The Group continues to prepare for operational impacts as a result of potential Brexit outcomes. In addition, potential government policy changes as a result of COVID-19 are being considered as part of our emerging risk process. In relation to Brexit, the Group continues to progress contingency plans to protect against potential adverse impacts that could arise in the event of the UK and EU failing to reach an agreement by 31 December 2020. The Group is well positioned to respond to the emerging government and regulatory agenda which continues to evolve as a result of COVID-19. We have strong relationships with our regulators and have visibility of how their business plans have been reshaped as a result of COVID-19. This allows us to react and respond accordingly.

Risk Management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2019 Annual Report
Operational risk				
The Group or its outsourcers are not sufficiently operationally resilient	The Group is 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. The Group relies on a wide range of IT systems, including those we provide to SLA plc through the terms of the Standard Life Assurance businesses 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. Following the FCA and PRA December 2019 update on Operational Resilience, the Group is working to ensure that we will be inside disruption tolerances within three years of the publication of final guidelines; noting that the deadline for the Regulatory Consultation response has moved from June to October 2020 due to COVID-19. The Group operates an oversight framework to ensure that our outsource partners and critical suppliers adhere to the same business continuity principles. The Group continues to utilise cyber security tools and capabilities in order to mitigate Information Security and Cyber risk. Our specialist Line 2 Information Security & Cyber Risk Assurance team provides independent oversight and challenge of Line 1 IT and information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions.	1 2 3	Risk Heightened The heightened trend is driven by the potential for future uncertainty around COVID-19 impacts that could further test the Group's operational resilience. The Group could be impacted by COVID-19 measures implemented both in the UK and globally in regions where some of our partners have a material presence. As noted earlier in the Risk Management section, to date the Group has reacted well to the changing environment as a result of COVID-19. We have taken active steps to reduce the likelihood of an operational resilience failure. We are gaining significant new insight through the responses taken so far to the COVID-19 pandemic. The Group's OSPs continue to deliver both critical and non-critical services in line with existing service level agreements. Our Reverse Stress Testing and Recovery Planning Processes have continued to demonstrate the Group is resilient to specific Board-approved scenarios. Attempted cyber-attacks and financial crime activity show no sign of decreasing in volume and sophistication across the industry as a result of COVID-19. The Group continues to adapt its approach in order to keep up to date with the latest threats. Notably, preventative and detective controls are in place to mitigate risks associated with working from home across the Group and our OSPs.
The Group fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy	Delivery of the Group's strategy is dependent on a talented and engaged workforce. Periods of uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract individuals with the appropriate skills to help deliver our strategy. This risk is inherent in our business model given the nature of our acquisition activity. Potential areas of uncertainty include the transition of the Standard Life Assurance business into the Group; the expanded strategic partnership with TCS; and the acquisition of ReAssure Group plc. Prolonged home working and extended distancing due to COVID-19 can affect colleague engagement and wellbeing.	Timely communications to our people aim to provide clarity around corporate activities. Communications include details of key milestones to deliver against our plans. We regularly benchmark terms and conditions against the market. We maintain and review succession plans for key individuals. Following the transition to working from home due to COVID-19, the Group has conducted regular Colleague Snapshot Surveys to monitor colleague engagement levels and identify any concerns; appropriate actions are taken following publication of the results. The Group continues to actively manage operational capacity required to deliver our strategy. This is particularly pertinent given the increasing demands on our workforce at this time. An operational capacity dashboard is regularly reviewed by both Life and Group Boards.	1 2 3 4	No Change Engagement scores from our Colleague Snapshot Surveys have been largely positive. Cross-organisational collaboration and health and wellbeing support continues to increase across the Group; colleagues have noted significant confidence in the approach business leaders are taking to mitigate the various impacts of COVID-19 to the Group. The Group continues to successfully rollout its Unified People Proposition following the transition of Standard Life Assurance Limited. By establishing a sophisticated blueprint for colleague terms and conditions, the Group is prepared for future acquisition and transition activity, and will be able to respond flexibly to future business needs.

Risk Management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2019 Annual Report
Market risk				
Adverse market movements can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment	The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers. There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector-specific sentiment, global pandemics and financial risks of climate change including risks from the transition to a low carbon economy.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. The Group continues to implement de-risking strategies to mitigate against unwanted customer and shareholder outcomes from certain market movements such as equities 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 given the low interest rate environment, and potential for adverse market impacts arising from prospective Brexit outcomes and COVID-19.	1 2 3	Risk Heightened The potential for adverse market risk is further heightened from March due to ongoing uncertainty regarding the external environment. Immediate market volatility due to COVID-19 appears to have receded; however, there remains an increased likelihood of global recession, uncertainty around recoveries of global economies, uncertainty around Brexit outcomes, as well as a continued backdrop of geopolitical tensions. The Group developed COVID-19 economic scenarios to help inform and support key strategic decisions, including dividend proposals and to support 'Change in Control' activity relating to the ReAssure acquisition. As the pandemic has evolved we have taken management actions, for example interest rate hedging, to provide resilience against unanticipated market movements; contingency actions are available to help us manage our capital and liquidity position. A number of our Unit Linked Property funds are temporarily suspended due to valuation uncertainty; we are managing this in line with our standard fund deferral process. Our exposure to residential property continues to increase as a result of our investment strategy for BPAs; however, exposures remain within our risk appetite.
Insurance risk				
The Group may be exposed to adverse demographic experience which is out of line with expectations	The Group has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if our annuity policyholders live for longer than expected, then the Group will need to pay their benefits for longer. The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements. The Group continues to 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 against appetite across the Open and Heritage businesses.	2 3	Risk Heightened The heightened risk exposure reflects increased uncertainty around future demographic experience as a result of COVID-19 impacts, particularly mortality and persistency risk. The Group has been actively monitoring demographic experience in light of COVID-19. No adjustments have been made to mortality or longevity assumptions for protection or annuity business at the half year point; it is currently considered to be too early to determine the longer-term impacts of COVID-19 on mortality and longevity experience. An additional capital add-on for persistency, introduced at Q1 2020, has been maintained at half-year; this reflects increased uncertainty arising from COVID-19. In H1 2020 Phoenix completed three BPA transactions with a combined premium of £1.1 billion. Consistent with previous transactions, we continue to reinsure the vast majority of the longevity risk.

Risk Management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2019 Annual Report
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 could 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 rating, sector and geography. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. For mitigation of risks associated with stocklending, additional protection is provided through indemnity insurance.	2 3	Risk Heightened The risk of downgrades and defaults within the Group's credit risk portfolio is heightened as a result of market volatility and wider economic and social impacts arising from COVID-19. We actively monitor the downgrade risk in the credit portfolio and regularly discuss the market outlook with our asset managers. In H1 we took de-risking action to increase the overall credit quality of the portfolio and mitigate the impact of future downgrades on risk capital. As part of BPA deals, the Group continues to increase investment in illiquid credit assets. This is in line with our strategic asset allocation plan and within our risk appetite.

EMERGING RISKS AND OPPORTUNITIES

The Group defines an emerging risk (or opportunity) as an event that is perceived to be potentially significant but is not yet fully understood. The Group captures emerging risks and opportunities in a dashboard; this includes potential likelihoods, timeframes and impacts.

Senior management and the Board regularly review and challenge the dashboard. Examples of some emerging risks and opportunities the Group currently considers are listed in the table below.

Risk Title	Description	Risk Universe Category
Market Disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions; changing customer expectations on simplicity, personalisation and technology.	Strategic
Solvency II refinements	Changes to the solvency regime as a result of EIOPA review and evolution of the UK's regulatory regime following its exit from the EU.	Financial soundness
Retail Price Index (RPI) Reform	The potential financial impacts from anticipated reform of RPI towards a variant of the Consumer Price Index (CPI).	Financial soundness/Operational
COVID-19 After-shocks	Multiple political, economic, social, technological and global impacts are likely to emerge.	All categories

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 2020, which have been prepared in accordance with IAS 34 Interim Financial Reporting, gives a fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings plc and its consolidated subsidiaries taken as whole;
- the Interim Report includes a fair view of the state of affairs of Phoenix Group Holdings plc and its consolidated subsidiaries as at 30 June 2020 and for the financial half year to which the Interim Report relates as required by DTR 4.2.7 of the Disclosure Guidance and Transparency Rules. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings plc and its consolidated subsidiaries for the remaining six months of the year; and
- the Interim Report includes, as required by DTR 4.2.8, a fair view of the information required on material transactions with related parties and any material changes in related party transactions described in the last Annual Report.

By order of the Board

ANDY BRIGGS
Group Chief Executive Officer
5 August 2020

RAKESH THAKRAR
Group Chief Financial Officer

PHOENIX GROUP HOLDINGS PLC BOARD OF DIRECTORS

Chairman
Nicholas Lyons

Executive Directors
Andy Briggs
Rakesh Thakrar

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

AUDITOR'S REVIEW REPORT

To: Phoenix Group Holdings plc

INTRODUCTION

We have been engaged by the Company to review the condensed consolidated set of interim financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises of the condensed consolidated income statement, condensed statement of consolidated comprehensive income, condensed statement of consolidated financial position, condensed statement of consolidated changes in equity, condensed statement of consolidated cash flows and the notes to the condensed consolidated interim financial statements. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed 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 (UK and Ireland) 2410 '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 interim 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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting' 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
5 August 2020

Notes:

The maintenance and integrity of the Phoenix Group Holdings plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the half year ended 30 June 2020

	Notes	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 restated (note 1.2) £m	Year ended 31 December 2019 £m
Gross premiums written		**2,456**	1,856	4,038
Less: premiums ceded to reinsurers		**(291)**	(273)	(556)
Net premiums written		**2,165**	1,583	3,482
Fees and commissions		**314**	343	700
Total revenue, net of reinsurance payable		**2,479**	1,926	4,182
Net investment income		**534**	18,436	24,876
Other operating income		**54**	47	106
Net income		**3,067**	20,409	29,164
Policyholder claims		**(3,452)**	(3,870)	(7,792)
Less: reinsurance recoveries		**587**	587	1,177
Change in insurance contract liabilities		**(2,020)**	(5,074)	(5,229)
Change in reinsurers' share of insurance contract liabilities		**28**	(7)	(320)
Transfer (to)/from unallocated surplus		**(69)**	(60)	84
Net policyholder claims and benefits incurred		**(4,926)**	(8,424)	(12,080)
Change in investment contract liabilities		**3,588**	(10,385)	(14,080)
Change in present value of future profits		**(81)**	4	70
Amortisation of acquired in-force business		**(177)**	(192)	(382)
Amortisation of other intangibles		**(10)**	(10)	(20)
Administrative expenses		**(697)**	(645)	(1,549)
Net expense under arrangements with reinsurers		**(93)**	(200)	(274)
Net expense/(income) attributable to unitholders		**46**	(261)	(336)
Total operating expenses		**(2,350)**	(20,113)	(28,651)
Profit before finance costs and tax		**717**	296	513
Finance costs		**(106)**	(79)	(162)
Profit for the period before tax		**611**	217	351
Tax credit/(charge) attributable to policyholders' returns	4	**32**	(268)	(365)
Profit/(loss) before the tax attributable to owners		**643**	(51)	(14)
Tax charge	4	**(125)**	(178)	(235)
Add: tax attributable to policyholders' returns	4	**(32)**	268	365
Tax (charge)/credit attributable to owners	4	**(157)**	90	130
Profit for the period attributable to owners		**486**	39	116
Attributable to:				
Owners of the parent		**506**	37	85
Non-controlling interests	9	**(20)**	2	31
		486	39	116
Earnings per ordinary share				
Basic (pence per share)	5	**68.7p**	3.7p	8.7p
Diluted (pence per share)	5	**68.5p**	3.7p	8.6p

CONDENSED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

For the half year ended 30 June 2020

	Notes	**Half year ended 30 June 2020 £m**	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Profit for the period		**486**	39	116
Other comprehensive income/(expense):				
Items that are or may be reclassified to profit or loss:				
Cash flow hedges:				
Fair value gains/(losses) arising during the period		**129**	19	(40)
Reclassification adjustments for amounts recognised in profit or loss		**(74)**	4	41
Exchange differences on translating foreign operations		**44**	5	(29)
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit asset/liability		**(78)**	(50)	(24)
Tax (charge)/credit relating to other comprehensive income items	4	**(6)**	5	(57)
Total other comprehensive income/(expense) for the period		**15**	(17)	(109)
Total comprehensive income for the period		**501**	22	7
Attributable to:				
Owners of the parent		**521**	20	(24)
Non-controlling interests	9	**(20)**	2	31
		501	22	7

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 £m	30 June 2019 restated (note 1.2) £m	31 December 2019 £m
ASSETS				
Pension scheme asset	11	**377**	284	314
Intangible assets				
Goodwill		**57**	57	57
Acquired in-force business		**3,473**	3,841	3,651
Other intangibles		**180**	215	271
	10	**3,710**	4,113	3,979
Property, plant and equipment		**103**	116	109
Investment property		**5,781**	6,184	5,943
Financial assets				
Loans and deposits		**974**	465	516
Derivatives		**6,836**	4,607	4,454
Equities		**54,187**	57,639	58,979
Investment in associate		**347**	512	513
Debt securities		**78,599**	77,616	76,113
Collective investment schemes		**69,185**	68,405	69,415
Reinsurers' share of investment contract liabilities		**8,523**	8,779	8,881
	14	**218,651**	218,023	218,871
Insurance assets				
Reinsurers' share of insurance contract liabilities		**7,360**	7,642	7,324
Reinsurance receivables		**46**	41	50
Insurance contract receivables		**54**	59	54
		7,460	7,742	7,428
Current tax		**103**	92	75
Prepayments and accrued income		**241**	331	259
Other receivables		**1,561**	1,763	1,233
Cash and cash equivalents		**6,505**	5,218	4,466
Total assets		**244,492**	243,866	242,677

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION CONTINUED

	Notes	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	7	**72**	72	72
Share premium		**3**	1	2
Shares held by employee benefit trust		**(11)**	(4)	(7)
Foreign currency translation reserve		**113**	103	69
Owner-occupied property revaluation reserve		**5**	5	5
Cash flow hedging reserve		**48**	15	(7)
Retained earnings		**4,897**	4,815	4,651
Total equity attributable to owners of the parent		**5,127**	5,007	4,785
Tier 1 Notes	8	**494**	494	494
Non-controlling interests	9	**289**	290	314
Total equity		**5,910**	5,791	5,593
Liabilities				
Pension scheme liability	11	**1,818**	1,746	1,712
Insurance contract liabilities				
Liabilities under insurance contracts	12	**98,778**	96,315	95,643
Unallocated surplus		**1,280**	1,413	1,367
		100,058	97,728	97,010
Financial liabilities				
Investment contracts		**115,660**	119,877	120,773
Borrowings	13	**3,649**	2,171	2,119
Deposits received from reinsurers		**4,092**	4,384	4,213
Derivatives		**1,041**	816	734
Net asset value attributable to unitholders		**2,742**	3,520	3,149
Obligations for repayment of collateral received		**5,590**	3,559	3,671
	14	**132,774**	134,327	134,659
Provisions		**294**	318	328
Deferred tax		**782**	867	873
Reinsurance payables		**111**	109	101
Payables related to direct insurance contracts		**1,012**	976	890
Current tax		**1**	44	–
Lease liabilities		**77**	74	84
Accruals and deferred income		**362**	356	384
Other payables		**1,293**	1,530	1,043
Total liabilities		**238,582**	238,075	237,084
Total equity and liabilities		**244,492**	243,866	242,677

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the half year ended 30 June 2020

	Share capital (note 7) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve[1] £m	Retained earnings £m	Total £m	Tier 1 Notes (note 8) £m	Non-controlling interests (note 9) £m	Total equity £m
At 1 January 2020	72	2	(7)	69	5	(7)	4,651	4,785	494	314	5,593
Profit for the period	–	–	–	–	–	–	506	506	–	(20)	486
Other comprehensive income/(expense) for the period	–	–	–	44	–	55	(84)	15	–	–	15
Total comprehensive income for the period	–	–	–	44	–	55	422	521	–	(20)	501
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	–	1	–	–	1
Dividends paid on ordinary shares	–	–	–	–	–	–	(169)	(169)	–	–	(169)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(5)	(5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	8	8	–	–	8
Shares distributed by the employee benefit trust	–	–	3	–	–	–	(3)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(7)	–	–	–	–	(7)	–	–	(7)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 30 June 2020	72	3	(11)	113	5	48	4,897	5,127	494	289	5,910

1 In April 2020, the Group terminated the derivative instruments which had been designated as hedging instruments in its cash flow hedging relationships. As a result, the Group no longer hedges its currency risk exposure arising on foreign denominated borrowings. The remaining cash flow hedging reserve will be reclassified to profit or loss over the remaining term of the hedged items.

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the half year ended 30 June 2019

	Share capital (note 7) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m	Tier 1 Notes (note 8) £m	Non-controlling interests (note 9) £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 At 1 January 2019, the share premium reserve continued to reflect the position of the former ultimate parent company of the Group ('Old PGH'). During 2019, Old PGH, in accordance with Cayman Islands Companies Law, made a distribution of its entire share premium reserve to Phoenix Group Holdings plc. This has been reflected as a transfer of share premium in the condensed statement of consolidated changes in equity in 2019.

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital (note 7) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m	Tier 1 Notes (note 8) £m	Non-controlling interests (note 9) £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	–	–	–	–	–	–	85	85	–	31	116
Other comprehensive (expense)/income for the period	–	–	–	(29)	–	1	(81)	(109)	–	–	(109)
Total comprehensive income for the period	–	–	–	(29)	–	1	4	(24)	–	31	7
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	–	–	2	–	–	2
Dividends paid on ordinary shares	–	–	–	–	–	–	(338)	(338)	–	–	(338)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	11	11	–	–	11
Shares distributed by the employee benefit trust	–	–	3	–	–	–	(3)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(4)	–	–	–	–	(4)	–	–	(4)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(11)	(11)
Transfer of reserve[1]	–	(3,077)	–	–	–	–	3,077	–	–	–	–
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(23)	(23)	–	–	(23)
At 31 December 2019	72	2	(7)	69	5	(7)	4,651	4,785	494	314	5,593

1 At 1 January 2019, the share premium reserve continued to reflect the position of the former ultimate parent company of the Group ('Old PGH'). During 2019, Old PGH, in accordance with Cayman Islands Companies Law, made a distribution of its entire share premium reserve to Phoenix Group Holdings plc. This has been reflected as a transfer of share premium in the condensed statement of consolidated changes in equity in 2019.

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS

For the half year ended 30 June 2020

	Notes	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Cash flows from operating activities				
Cash generated by operations	15	**1,093**	605	273
Taxation paid		**(234)**	(71)	(205)
Net cash flows from operating activities		**859**	534	68
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**1**	1	2
Ordinary share dividends paid	6	**(169)**	(169)	(338)
Dividends paid to non-controlling interests	9	**(5)**	(6)	(11)
Repayment of policyholder borrowings		**(14)**	(13)	(34)
Repayment of shareholder borrowings		**–**	–	(100)
Repayment of lease liabilities		**(6)**	(6)	(15)
Proceeds from new shareholder borrowings, net of associated expenses		**1,445**	–	100
Coupon paid on Tier 1 Notes		**(14)**	(14)	(29)
Interest paid on policyholder borrowings		**–**	–	(4)
Interest paid on shareholder borrowings		**(58)**	(35)	(99)
Net cash flows from financing activities		**1,180**	(242)	(528)
Net increase/(decrease) in cash and cash equivalents		**2,039**	292	(460)
Cash and cash equivalents at the beginning of the period		**4,466**	4,926	4,926
Cash and cash equivalents at the end of the period		**6,505**	5,218	4,466

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 2020 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 28 to 58 and were authorised by the Board of Directors for issue on 5 August 2020. The interim financial statements are unaudited but have been reviewed by our auditors, Ernst & Young LLP and their review report appears on page 27.

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

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

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

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies applied in the interim financial statements are consistent with those set out in the 2019 consolidated financial statements.

The interim financial statements do not include all the information and disclosures required in the 2019 consolidated financial statements, and should be read in conjunction with the Group's 2019 Annual Report and Accounts, which have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU').

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2020:

- Amendments to IFRS 3 Business Combinations;
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7);
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Clarification to definition of material; and
- Amendments to the Conceptual Framework in IFRS Standards.

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

These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 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 Impacts of COVID-19 during the period

The 'CEO statement', 'Business Review' and 'Principal Risks and Uncertainties' sections of this Interim Report provide information as to the broader effects of COVID-19 on the Group's financial results, its operations and prospects. The Group has given due consideration as to the impact of uncertainty arising from COVID-19 related factors on the production of the interim financial statements. This has included an assessment as to the impact of weak economic conditions, market volatility, low asset trading volumes, demographic experience, and government and regulatory intervention on the valuation, recognition and disclosure of the Group's assets and liabilities.

Considerations as to valuation uncertainty and other specific impacts of COVID-19 have been included within the notes to the interim financial statements that provide further detail on intangible assets, pension schemes, liabilities under insurance contracts and financial instruments.

In addition to the above, further valuation uncertainty has been identified in respect of the valuation of investment properties. The valuation of investment properties as at 30 June 2020 reflects the fall in market values that have been evidenced throughout the property sector in the period as a result of the impacts of COVID-19. A significant portion of the investment property valuations at 30 June 2020 included standard valuation uncertainty clauses from the independent RICS valuers, reflective of the increased uncertainty in determining fair values in the current market environment. This uncertainty has been driven by a combination of limited or absent transaction activity, weak economic conditions, rent moratoriums and changing patterns or behaviours of the population with respect to working for home and online shopping. This is a sector-wide issue affecting companies both within and outside of the insurance industry and the Group will continue to monitor the impacts of this uncertainty on the value of both its investment properties and the property collective investment schemes. Further details of the impacts on the property collective investment schemes can be found in note 14.

Notes to the Condensed Consolidated Interim Financial Statements continued

1. BASIS OF PREPARATION CONTINUED

Disclosures have been included in the following notes to the interim financial statements to provide additional information as to the impacts of COVID-19 during the half year ended 30 June 2020:

	Note
Investment return variance and economic assumptions on long-term business	3
Intangible assets	10
Pension schemes	11
Liabilities under insurance contracts – assumptions	12
Financial instruments	14

Going concern

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

The Board has considered financial projections which demonstrate the ability of the Group to withstand market shocks in a range of scenarios, including very severe ones. The projections reflect the completion of the acquisition of ReAssure Group plc and its subsidiaries which occurred on 22 July 2020.

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

As a result of the above assessment, the Directors are satisfied that all mandatory outgoings and pensions covenants can be met over the going concern period, and consider it appropriate to adopt the going concern basis in the preparation of these interim financial statements.

1.2 Restatement of prior period information

Following the acquisition of the Standard Life Assurance businesses in 2018, the Group has revised the presentation of certain balances within the condensed statement of consolidated financial position and condensed consolidated income statement. These presentational changes have been made to ensure consistency of accounting treatment for all similar items across the Group's subsidiaries and are consistent with the changes made in the 2019 consolidated financial statements.

	30 June 2019 As previously reported £m	Adjustments £m	30 June 2019 restated £m
Condensed consolidated income statement:			
Net investment income	18,438	(2)	18,436
Change in investment contract liabilities	(10,387)	2	(10,385)
Condensed statement of consolidated financial position:			
Financial assets:			
Loans and deposits	4,216	(3,751)	465
Debt securities	73,633	3,983	77,616
Collective investment schemes	71,581	(3,176)	68,405
Reinsurers' share of investment contract liabilities	5,603	3,176	8,779
Prepayments and accrued income	563	(232)	331

Debt securities have been restated to include reclassified loans and deposits designated at fair value through profit and loss and an uplift to the value of certain assets for accrued interest previously classified within prepayments and accrued interest. This latter reclassification has resulted in an increase to the fair value hierarchy totals for debt securities as follows: £155 million for level1; £73 million for level 2; and £4 million for level 3 assets.

External Fund Link assets have been reclassified from collective investment schemes to reinsurers' share of investment contract liabilities also as a level 1 asset. This has had an associated impact within the condensed consolidated income statement as shown above. Following on from this change £5,576 million of the previously reported reinsurers' share of investment contract liabilities balance was reclassified from level 2 to level 1.

The reclassifications noted above are also reflected in notes 14.1 fair value analysis, 14.2 fair value hierarchy and 15 cash flows from operating activities.

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

Notes to the Condensed Consolidated Interim Financial Statements continued

2. 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.

The Group has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services.

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 Standard Life Aberdeen plc ('SLA plc'), and also products sold under the SunLife brand.

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

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

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

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

Segmental measure of performance: Operating profit

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

The determination of operating profit is as described in note B1 of the Group's 2019 consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Statements continued

2. SEGMENTAL ANALYSIS CONTINUED

2.1 Segmental result

Half year ended 30 June 2020

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Operating profit			
UK Heritage	**281**	257	694
UK Open	**58**	43	73
Europe	**20**	28	52
Management Services	**19**	13	26
Unallocated Group	**(17)**	(16)	(35)
Total segmental operating profit	**361**	325	810
Investment return variances and economic assumption changes on long-term business	**600**	(81)	(177)
Variance on owners' funds	**27**	(3)	13
Amortisation of acquired in-force business	**(174)**	(189)	(375)
Amortisation of other intangibles	**(10)**	(10)	(20)
Other non-operating items	**(65)**	(32)	(169)
Finance costs attributable to owners	**(76)**	(63)	(127)
Profit/(loss) before the tax attributable to owners of the parent	**663**	(53)	(45)
(Loss)/profit before tax attributable to non-controlling interests	**(20)**	2	31
Profit/(loss) before the tax attributable to owners	**643**	(51)	(14)

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

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

Other non-operating items in respect of the 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 positive items of £1 million.

Other non-operating items in respect of the year ended 31 December 2019 include:

- an £80 million benefit arising from updated expense assumptions for insurance contracts reflecting reduced future servicing costs as a result of transition activity. Such benefits on the Group's investment contract business will typically be recognised as incurred. This benefit has been more than offset by staff and external costs incurred or provided for in the period with regard to transition activity and the transformation of the Group's operating model and extended relationship with Tata Consultancy Services, totalling £190 million, of which £175 million relates to external costs;
- £5 million of costs associated with preparations to ready the business for Brexit;
- £41 million of other corporate project costs, including the Group's Internal Model harmonisation project and acquisition of ReAssure Group; and
- net other one-off items totalling a cost of £13 million.

Notes to the Condensed Consolidated Interim Financial Statements continued

2. SEGMENTAL ANALYSIS CONTINUED

2.2 Segmental revenue

Half year ended 30 June 2020	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	**1,735**	**123**	**598**	**–**	**–**	**2,456**
Less: premiums ceded to reinsurers	**(275)**	**–**	**(16)**	**–**	**–**	**(291)**
Net premiums written	**1,460**	**123**	**582**	**–**	**–**	**2,165**
Fees and commissions	**157**	**134**	**23**	**–**	**–**	**314**
Income from other segments	**–**	**–**	**–**	**367**	**(367)**	**–**
Total segmental revenue	**1,617**	**257**	**605**	**367**	**(367)**	**2,479**

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

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

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) as at 30 June 2019 of £6,177 million located in the UK and £395 million located in the rest of the world.

Year ended 31 December 2019	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	2,525	229	1,284	–	–	4,038
Less: premiums ceded to reinsurers	(528)	–	(28)	–	–	(556)
Net premiums written	1,997	229	1,256	–	–	3,482
Fees and commissions	360	278	62	–	–	700
Income from other segments	–	–	–	894	(894)	–
Total segmental revenue	2,357	507	1,318	894	(894)	4,182

Of the revenue from external customers presented in the table above for the year ended 31 December 2019, £3,131 million is attributable to customers in the UK and £1,051 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group had total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) as at 31 December 2019 of £6,005 million located in the UK and £375 million located in the rest of the world.

3. 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.

3.1 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 349bps is added to the risk-free yield for equities (30 June 2019 and 31 December 2019: 350bps), 249bps for properties (30 June 2019 and 31 December 2019: 250bps), 55bps for corporate bonds (30 June 2019 and 31 December 2019: 120bps) and 15bps for gilts (30 June 2019 and 31 December 2019: 50bps). The reduction in the risk premiums for gilts and corporate bonds reflected the lower expected return for these assets at the beginning of the period due to narrowing credit spreads.

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

	Half year ended 30 June 2020 %	Half year ended 30 June 2019 %	Year ended 31 December 2019 %
Equities	**4.7**	5.2	5.2
Properties	**3.7**	4.2	4.2
Gilts	**1.4**	2.2	2.2
Corporate bonds	**1.8**	2.9	2.9

3.2 Life assurance business

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

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

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

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

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Investment return variances and economic assumption changes on long-term business	**600**	(81)	(177)

The net favourable investment return variances and economic assumption changes on long-term business of £600 million in the first half of 2020 (half year ended 30 June 2019: adverse £81 million; year ended 31 December 2019: adverse £177 million) reflect the impact of economic volatility arising as a result of COVID-19 related factors on the Group's financial results, notably declining equity markets, falling yields and widening credit spreads.

The Group has experienced significant gains on hedging positions held by the life funds following equity market losses during the first half of the year. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

Notes to the Condensed Consolidated Interim Financial Statements continued

3. INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES CONTINUED

Falling fixed interest yields in the period have also had a positive impact on the Group's financial results reflecting the underlying liability matching positions in the funds. These positive impacts have been partly offset by the impact of widening credit spreads experienced during the first half of the year.

3.3 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 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Variances on owners' funds of subsidiary undertakings	**27**	(3)	13

The positive variance on owners' funds of subsidiary undertakings of £27 million (30 June 2019: negative £3 million; 31 December 2019: positive £13 million) and is driven by gains on interest rate hedging positions held within the shareholder funds of the life companies, together with gains arising on the hedge entered into on announcement of the ReAssure acquisition to protect the Group's exposure to equity risk in the period prior to completion. These gains have been partly offset by losses on foreign currency swaps held by the holding companies to hedge exposure of future life company profits to movements in exchange rates.

4. TAX CHARGE

4.1 Current period tax charge

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Current tax:			
UK corporation tax	**201**	107	210
Overseas tax	**20**	42	62
	221	149	272
Adjustment in respect of prior years	**(9)**	–	(11)
Total current tax charge	**212**	149	261
Deferred tax:			
Origination and reversal of temporary differences	**(126)**	106	52
Change in the rate of corporation tax	**46**	(46)	(50)
Write-up of deferred tax assets	**(7)**	(31)	(28)
Total deferred tax (credit)/charge	**(87)**	29	(26)
Total tax charge	**125**	178	235
Attributable to:			
– policyholders	**(32)**	268	365
– owners	**157**	(90)	(130)
Total tax charge	**125**	178	235

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each period. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax credit attributable to policyholder earnings was £32 million (half year ended 30 June 2019: £268 million charge; year ended 31 December 2019: £365 million charge).

4.2 Tax charged/(credited) to other comprehensive income

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Current tax charge	**10**	–	1
Deferred tax (credit)/charge on defined benefit schemes	**(4)**	(5)	56
Total tax charge/(credit) relating to other comprehensive income items	**6**	(5)	57

4. TAX CHARGE CONTINUED

4.3 Tax credited to equity

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Current tax credit on Tier 1 Notes	**(3)**	(3)	(6)

4.4 Reconciliation of tax charge

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Profit before tax	**611**	217	351
Policyholder tax credit/(charge)	**32**	(268)	(365)
Profit/(loss) before the tax attributable to owners	**643**	(51)	(14)
Tax charge/(credit) at standard UK rate of 19%[1]	**122**	(10)	(3)
Non-taxable income, gains and losses[2]	**(1)**	(2)	3
Disallowable expenses[3]	**3**	13	22
Prior year tax credit for shareholders[4]	**(7)**	(30)	(51)
Movement on acquired in-force amortisation taxed at less than 19%	**3**	5	9
Profits taxed at rates other than 19%[5]	**(8)**	2	(13)
Recognition of previously unrecognised deferred tax assets[6]	**(7)**	(24)	(47)
Deferred tax rate change[7]	**46**	(46)	(50)
Current year losses not valued	**6**	2	–
Owners' tax charge/(credit)	**157**	(90)	(130)
Policyholder tax (credit)/charge	**(32)**	268	365
Total tax charge for the period	**125**	178	235

1 The Phoenix operating segments are predominantly in the UK. The reconciliation of tax charge has therefore been completed by reference to the standard rate of UK tax.

2 Non-taxable income, gains and losses includes non-taxable dividends and gains and non-taxable pension scheme items.

3 The 2020 disallowable deductions are primarily in relation to derivative hedging and expenses.

4 The 2020 prior year tax credit recognised in current period predominately relates to overseas deferred acquisition costs of £(8) million for Standard Life International DAC.

5 Profits taxed at rates other than 19% relates to life company profits which are also subject to marginal policyholder tax rates and profits subject to non UK tax rates.

6 The 2020 tax credit represents the recognition of tax losses £(4) million and intangible assets £(3) million.

7 The 2020 deferred tax rate change relates to the impact of retaining the 19% corporation tax rate.

The standard rate of UK corporation tax for the half year ended 30 June 2020 is 19% (half year ended 30 June 2019: 19%; year ended 31 December 2019: 19%). The March 2020 Budget cancelled the planned tax rate reduction from 19% to 17% so the rate applying from 1st April 2020 remains at 19%. 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 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	**35**	69	30
Provisions and other temporary differences	**8**	–	–
Intangibles	**12**	–	13
Deferred tax assets not recognised on capital losses[1]	**7**	16	2

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

On 31 January 2020 the UK formally left the EU. Talks are ongoing on the long-term trading relationship between the EU and UK, with transitional arrangements to remain in place until 31 December 2020. No changes are required to the measurement of tax in these interim financial statements as a result of these transitional arrangements but this will be monitored and reassessed each period.

5. EARNINGS PER SHARE

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

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

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

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

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

Half year ended 30 June 2019	Operating profit £m	Financing costs £m	Operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	325	(63)	262	(313)	(51)
Tax (charge)/credit attributable to owners	(66)	15	(51)	141	90
Profit/(loss) for the period attributable to owners	259	(48)	211	(172)	39
Coupon paid on Tier 1 notes, net of tax relief	–	(12)	(12)	–	(12)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(2)	(2)
Profit/(loss) for the period attributable to ordinary equity holders of the parent	259	(60)	199	(174)	25

Year ended 31 December 2019	Operating profit £m	Financing costs £m	Operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	810	(127)	683	(697)	(14)
Tax (charge)/credit attributable to owners	(163)	35	(128)	258	130
Profit/(loss) for the period attributable to owners	647	(92)	555	(439)	116
Coupon paid on Tier 1 notes, net of tax relief	–	(23)	(23)	–	(23)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(31)	(31)
Profit/(loss) for the period attributable to ordinary equity holders of the parent	647	(115)	532	(470)	62

Notes to the Condensed Consolidated Interim Financial Statements continued

5. EARNINGS PER SHARE CONTINUED

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

	Half year ended 30 June 2020 Number million	Half year ended 30 June 2019 Number million	Year ended 31 December 2019 Number million
Issued ordinary shares at beginning of the period	**722**	721	721
Effect of ordinary shares issued	**–**	–	–
Own shares held by employee benefit trust	**(2)**	(1)	(1)
Weighted average number of ordinary shares	**720**	720	720

The diluted weighted average number of ordinary shares outstanding during the period is 722 million (half year ended 30 June 2019: 721 million; year ended 31 December 2019: 722 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave schemes increased the weighted average number of shares on a diluted basis by 1,795,868 shares for the half year ended 30 June 2020 (half year ended 30 June 2019: 1,211,008; year ended 31 December 2019: 1,474,170 shares).

Earnings per share disclosures are as follows:

	Half year ended 30 June 2020 pence	Half year ended 30 June 2019 pence	Year ended 31 December 2019 pence
Basic earnings per share	**68.7**	3.7	8.7
Diluted earnings per share	**68.5**	3.7	8.6
Basic operating earnings net of financing costs per share	**31.1**	28.3	73.8
Diluted operating earnings net of financing costs per share	**31.0**	28.3	73.7

6. DIVIDENDS ON ORDINARY SHARES

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Dividend declared and paid	**169**	169	338

On 6 March 2020, the Board recommended a dividend of 23.4p per share in respect of the year ended 31 December 2019. The dividend was approved at the Company's Annual General Meeting, which was held on 15 May 2020. The dividend amounted to £169 million and was paid on 19 May 2020.

7. SHARE CAPITAL

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Issued and fully paid:			
721.7 million (30 June 2019: 721.4 million; 31 December 2019: 721.5 million) ordinary shares of £0.10 each	**72**	72	72

Movements in share capital during the period:

2020	**Number**	**£**
Shares in issue at 1 January 2020	**721,514,944**	**72,151,494**
Ordinary shares issued in the period	**161,569**	**16,157**
Shares in issue at 30 June 2020	**721,676,513**	**72,167,651**

During the period, the Company issued 161,569 shares at a total premium of £1 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

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
Ordinary shares issued in the period	109,510	10,951
Shares in issue at 31 December 2019	721,514,944	72,151,494

During 2019, the Company issued 315,730 shares at a premium of £2 million in order to satisfy its obligations to employees under the Group's sharesave schemes.

Notes to the Condensed Consolidated Interim Financial Statements continued

8. TIER 1 NOTES

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £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. 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.

9. NON-CONTROLLING INTERESTS

2020	SLPET £m
At 1 January 2020	314
Loss for the period	(20)
Dividends paid	(5)
At 30 June 2020	**289**

2019	SLPET £m
At 1 January 2019	294
Profit for the period	2
Dividends paid	(6)
At 30 June 2019	290
Profit for the period	29
Dividends paid	(5)
At 31 December 2019	314

The non-controlling interests of £289 million (half year ended 30 June 2019: £290 million; year ended 31 December 2019: £314 million) reflects third party ownership of Standard Life Private Equity Trust ('SLPET') determined at the proportionate value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. As at 30 June 2020, the Group held 55.2% of the issued share capital of SLPET (half year ended 30 June 2019: 55.2%; year ended 31 December 2019: 55.2%).

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

10. INTANGIBLE ASSETS

Acquired in-force business ('AVIF') on insurance contracts, investment contracts with DPF and investment contracts without DPF upon initial recognition represents the difference between the fair value of the contractual rights under these contracts and the liability measured in accordance with the Group's accounting policies for such contracts. The carrying value of AVIF is £3,473 million (30 June 2019: £3,841 million; 31 December 2019: £3,651 million). As a result of the economic impacts of the COVID-19 pandemic, it was considered that there was an indicator of impairment in relation to the acquired in-force business intangible asset that arose on acquisition of the Standard Life Assurance businesses in 2018. An impairment test was subsequently performed and value in use was determined to be greater than carrying value, and therefore no impairment has been recognised.

The long-term impacts of COVID-19 remain uncertain and a more significant and prolonged deterioration in economic factors, along with significant adverse changes in policyholder behaviour, could cause the recoverable amount of the AVIF to fall below carrying value in the future.

No indicators of impairment were identified in respect of the remaining intangible assets.

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 2020.

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 £1,115 million of plan assets to a collateral account and this transfer constituted the payment of premium to PLL. An adjustment of £13 million to the value of the premium was paid to PLL in the period to 30 June 2020. The assets transferred to PLL are recognised in the relevant line within financial assets in the 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 £33 million (30 June 2019: £51 million; 31 December 2019: £37 million). The carrying value of insurance policies effected by the PGL Pension Scheme with the Group of £1,764 million (30 June 2019: £1,713 million; 31 December 2019: £1,687 million) and amounts due to PLL of £nil (30 June 2019: £nil; 31 December 2019: £13 million) are eliminated on consolidation. The remaining economic surplus is expected to cover future anticipated pension scheme administration expenses and consequently no deduction for the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme has been made. The resulting net pension scheme liability of the PGL Pension Scheme amounted to £1,731 million (30 June 2019: £1,662 million; 31 December 2019: £1,637 million). The value of the collateral assets disclosed within financial assets in the condensed statement of consolidated financial position is £2,262 million (30 June 2019: £2,101 million; 31 December 2019: £2,050 million).

The pension scheme asset of the Pearl Group Staff Pension Scheme amounted to £377 million (30 June 2019: £284 million; 31 December 2019: £314 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 £87 million (30 June 2019: £84 million; 31 December 2019: £75 million).

The market volatility experienced as a result of COVID-19 has impacted the pension scheme IAS 19 valuations as at 30 June 2020. Discount rates used to calculate the IAS 19 defined benefit obligations have fallen by 50bps since 31 December 2019 to 1.5% and this has resulted in a significant increase in the value of the defined benefit obligations at 30 June 2020. This impact has been completely offset in relation to the Pearl Scheme, and partially offset in relation to the Abbey Scheme, by an increase in the fair value of the plan assets. Falling yields in the period have resulted in an increase to the value of government bonds and corporate bonds which form a substantial part of the plan assets for the Pearl and Abbey Schemes. There is a similar offset in respect of the PGL Pension Scheme as the impact of the increase in the discount rate has been offset by an increase in the fair value of the collateral assets which primarily consist of government bonds. There are currently no changes anticipated to the level of future contributions payable to the pension schemes.

12. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS

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

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

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.

12.3 Process used to determine assumptions

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

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

Notes to the Condensed Consolidated Interim Financial Statements continued

12. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS CONTINUED

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 2020 £m	Increase in insurance liabilities 30 June 2019 £m	(Decrease)/ increase in insurance liabilities 31 December 2019 £m
Change in longevity assumptions	–	–	(186)
Change in persistency assumptions	4	19	19
Change in mortality assumptions	–	–	17
Change in expenses assumptions	58	3	(68)

The £58 million negative impact of changes in expense assumptions principally reflects updated expense assumptions in relation to the delivery of the Group Target Operating Model for IT and Operations.

Factors related to the COVID-19 pandemic are expected to have impacted policyholder behaviour (including persistency) and demographic experience in the period and are likely to continue to do so in the future. The Group's results have been impacted during the period by adverse mortality experience on the protection business, but this has been offset by positive longevity experience on the annuity business. It is currently considered to be too early to determine whether this experience is likely to be prolonged and as result there has been no adjustment to assumptions at 30 June 2020 in respect of this. A further review will be performed ahead of the year end.

13. BORROWINGS

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Carrying value			
Limited recourse bonds 2022 7.59%	35	46	35
Property reversions loan	84	104	99
Total policyholder borrowings	119	150	134
£200 million 7.25% unsecured subordinated loan	199	191	196
£300 million senior unsecured bond	121	121	121
£428 million Tier 2 subordinated notes	426	426	426
£450 million Tier 3 subordinated notes	449	449	449
US $500 million Tier 2 bonds	402	392	376
€500 million Tier 2 bonds	448	442	417
US $750 million Contingent Convertible Tier 1 notes	601	–	–
£500 million Tier 2 notes	483	–	–
US $500 million Fixed Rate Reset Tier 2 notes	401	–	–
Total shareholder borrowings	3,530	2,021	1,985
Total borrowings	3,649	2,171	2,119

On 29 January 2020, the Company issued US $750 million fixed rate reset perpetual restricted Tier 1 contingent convertible notes (the 'contingent convertible Tier 1 Notes') which are unsecured and subordinated. The contingent convertible Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company. The contingent convertible Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.625% per annum up to the 'First Reset Date' of 26 April 2025. Thereafter the fixed rate of interest will be reset on the First Reset Date and on each fifth anniversary of this date by reference to the sum of the yield of the Constant Maturity Treasury ('CMT') rate (based on the prevailing five year US Treasury yield) plus a margin of 4.035%, being the initial credit spread used in pricing the notes. Interest is payable on the contingent convertible Tier 1 Notes semi-annually in arrears on 26 April and 26 October. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter.

13. BORROWINGS CONTINUED

The terms of the contingent convertible Tier 1 Notes contain a contingent settlement provision which is linked to the occurrence of a 'Capital Disqualification Event'. Such an event is deemed to have taken place where, as a result of a change to the Solvency II regulations, the contingent convertible Tier 1 Notes are fully excluded from counting as own funds. On the occurrence of such an event and where the Company has chosen not to use its corresponding right to redeem the notes the Company shall no longer be able to exercise its discretion to cancel any interest payments due on such contingent convertible Tier 1 Notes on any interest payment date following the occurrence of this event. Accordingly the contingent convertible Tier 1 Notes are considered to meet the definition of a financial liability for financial reporting purposes and are disclosed as such in the interim financial statements.

The contingent convertible Tier 1 Notes may be redeemed at par on the First Reset 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 contingent convertible Tier 1 Notes. In respect of any redemption or purchase of the contingent convertible 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 contingent convertible Tier 1 Notes, the contingent convertible Tier 1 Notes will automatically be subject to conversion to ordinary shares of the Company at the conversion price of US $1,000 per share, subject to adjustment in accordance with the terms and conditions of the notes and all accrued and unpaid interest will be cancelled. Following such conversion there shall be no reinstatement of any part of the principal amount of, or interest on, the contingent convertible Tier 1 Notes at any time.

On 28 April 2020, the Company issued £500 million fixed rate Tier 2 Notes (the 'Tier 2 Notes') which are unsecured and subordinated. The Tier 2 Notes have a maturity date of 28 April 2031 and include an issuer par call right for the three month period prior to maturity. The Tier 2 Notes bear interest on the principal amount at a fixed rate of 5.625% per annum payable annually in arrears on 28 April each year.

On 4 June 2020, the Company issued US $500 million fixed rate reset callable Tier 2 notes (the 'Fixed Rate Reset Tier 2 Notes') which are unsecured and subordinated. The Fixed Rate Reset Tier 2 notes have a maturity date of 4 September 2031 with an optional issuer par call right on any day in the three month period up to and including 4 September 2026. The Fixed Rate Reset Tier 2 Notes bear interest on the principal amount at a fixed rate of 4.75% per annum up to the interest rate reset date of 4 September 2026. If the Fixed Rate Reset Tier 2 Notes are not redeemed before that date, the interest rate resets to the sum of the applicable CMT rate (based on the prevailing five year US Treasury yield) plus a margin of 4.276%, being the initial credit spread used in pricing the notes. Interest is payable on the Fixed Rate Reset Tier 2 Notes semi-annually in arrears on 4 March and 4 September each year.

14. FINANCIAL INSTRUMENTS

14.1 Fair values

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

	30 June 2020		30 June 2019 restated[1]		31 December 2019	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets measured at carrying and fair values						
Financial assets at fair value through profit or loss ('FVTPL'):						
Held for trading – derivatives	**6,836**	**6,836**	4,607	4,607	4,454	4,454
Designated upon initial recognition:						
Equities	**54,187**	**54,187**	57,639	57,639	58,979	58,979
Investment in associate	**347**	**347**	512	512	513	513
Debt securities	**78,599**	**78,599**	77,616	77,616	76,113	76,113
Collective investment schemes	**69,185**	**69,185**	68,405	68,405	69,415	69,415
Reinsurers' share of investment contract liabilities	**8,523**	**8,523**	8,779	8,779	8,881	8,881
Financial assets measured at amortised cost:						
Loans and deposits	**974**	**974**	465	465	516	516
Total financial assets[2]	**218,651**	**218,651**	218,023	218,023	218,871	218,871

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

	30 June 2020		30 June 2019 restated[1]		31 December 2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial liabilities measured at carrying and fair values						
Financial liabilities at FVTPL:						
Held for trading – derivatives	**1,041**	**1,041**	816	816	734	734
Designated upon initial recognition:						
Borrowings	**84**	**84**	104	104	99	99
Net asset value attributable to unitholders	**2,742**	**2,742**	3,520	3,520	3,149	3,149
Investment contract liabilities	**115,660**	**115,660**	119,877	119,877	120,773	120,773
Financial liabilities measured at amortised cost:						
Borrowings	**3,565**	**3,782**	2,067	2,188	2,020	2,223
Deposits received from reinsurers	**4,092**	**4,092**	4,384	4,384	4,213	4,213
Obligations for repayment of collateral received	**5,590**	**5,590**	3,559	3,559	3,671	3,671
Total financial liabilities	**132,774**	**132,991**	134,327	134,448	134,659	134,862

1 See note 1.2 for details of the restatement.

2 Total financial assets includes £2,262 million (30 June 2019: £2,101 million; 31 December 2019: £2,050 million) of assets held in a collateral account pertaining to the PGL pension scheme buy-in agreement.

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 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.

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

14.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2020

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

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

At 30 June 2019 restated[1]

	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:				
Equities	56,080	–	1,559	57,639
Investment in associate	512	–	–	512
Debt securities	42,017	30,452	5,147	77,616
Collective investment schemes	66,970	708	727	68,405
Reinsurers' share of investment contract liabilities	8,752	27	–	8,779
	174,331	31,187	7,433	212,951
Total financial assets measured at fair value	174,713	35,253	7,592	217,558

	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
Net asset value attributable to unitholders	3,520	–	–	3,520
Investment contract liabilities	–	119,877	–	119,877
	3,520	119,877	104	123,501
Total financial liabilities measured at fair value	3,625	120,513	179	124,317

1 See note 1.2 for details of the restatement.

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

At 31 December 2019

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	284	3,995	175	4,454
Financial assets designated at FVTPL upon initial recognition:				
Equities	57,383	–	1,596	58,979
Investment in associate	513	–	–	513
Debt securities	38,176	31,911	6,026	76,113
Collective investment schemes	67,513	1,256	646	69,415
Reinsurers' share of investment contract liabilities	8,856	25	–	8,881
	172,441	33,192	8,268	213,901
Total financial assets measured at fair value	172,725	37,187	8,443	218,355

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	76	584	74	734
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	99	99
Net asset value attributable to unitholders	3,149	–	–	3,149
Investment contract liabilities	–	120,773	–	120,773
	3,149	120,773	99	124,021
Total financial liabilities measured at fair value	3,225	121,357	173	124,755

14.2.3 Level 3 financial instruments

As explained in note 1.1, weak economic conditions from COVID-19, market volatility and low trading volumes have resulted in the fair valuation of all Level 3 assets being subject to increased uncertainty. In response to this additional analysis has been performed to confirm that the fair value of financial instruments included in the interim financial statements is reasonable.

A proportion of the Group's level 3 financial assets are held to back unit linked business and unsupported with-profit funds. As such, movements in the fair value of those assets will typically be offset by corresponding movements in insurance and investment contract liabilities. From a financial reporting perspective, valuation risk is centered on those assets held in the shareholder funds or to back liabilities in the non-profit or supported with-profit funds. The table below shows the shareholder exposure to Level 3 assets as at 30 June 2020:

	Shareholder, NPF & Supported WPF £m	**Unit linked & Unsupported WPF £m**	**Total fair value £m**
Financial assets measured at fair value			
Derivatives	**214**	**–**	**214**
Financial assets designated at FVTPL upon initial recognition:			
Equities	**961**	**490**	**1,451**
Debt securities	**6,323**	**702**	**7,025**
Collective investment schemes	**368**	**1,147**	**1,515**
Reinsurers' share of investment contract liabilities	**–**	**97**	**97**
	7,652	**2,436**	**10,088**
Total financial assets measured at fair value	**7,866**	**2,436**	**10,302**

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

14.2.4 Level 3 financial instrument sensitivities

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

Debt securities

Analysis of Level 3 debt securities	**30 June 2020[1]**	30 June 2019 restated[2]	31 December 2019
Unquoted corporate bonds:			
Local authority loans	**359**	237	262
Private placements	**1,563**	872	1,147
Infrastructure loans	**391**	235	341
Equity release mortgages	**3,111**	2,372	2,781
Commercial real estate loans	**389**	427	388
Income strips	**693**	674	690
Bridging loans to private equity funds	**393**	229	320
Corporate transactions	**31**	49	43
Other	**95**	52	54
Total Level 3 debt securities	**7,025**	5,147	6,026

1 Debt securities held to back unit linked business and unsupported with-profit funds includes income strips of £693 million and other assets of £9 million.

2 See note 1.2 for details of the restatement.

The Group holds unquoted corporate bonds comprising investments in local authority loans, private placements and infrastructure loans with a total value of £2,313 million (30 June 2019 restated: £1,343 million; 31 December 2019: £1,750 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 £105 million (30 June 2019: £62 million; 31 December 2019: £81 million) and a decrease of 35bps would increase the value by £115 million (30 June 2019: £67 million; 31 December 2019: £87 million).

As at 30 June 2020, following the effects of the COVID-19 crisis, the credit ratings for a small number of unquoted corporate bonds have been downgraded and the impacts of this have been reflected in the fair values at 30 June 2020. There remains ongoing uncertainty in respect of the credit ratings for unquoted corporate bonds and commercial real estate loans in light of the continuing economic volatility. Internal review processes are in place to closely monitor credit ratings and additional reviews are carried out as required, for example when triggered by credit performance or market factors. The financial impact of reasonable movements in spreads has been quantified above.

Included within debt securities are investments in equity release mortgages with a value of £3,111 million (30 June 2019: £2,372 million; 31 December 2019: £2,781 million). The loans are valued using a discounted cash flow model and a Black Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

The future cash flows are estimated based on assumed levels of mortality derived from published mortality tables, entry into long-term care rates and voluntary redemption rates. Cash flows include an allowance for the expected cost of providing a NNEG assessed under a real world approach using a closed form model including an assumed level of property value volatility. For the NNEG assessment, property values are indexed from the latest property valuation point and then assumed to grow in line with an RPI based assumption. The COVID-19 pandemic has seen residential property transactions decrease during the lockdown period and as a result the quarterly house price index used is being influenced by the larger volume of transactions in April compared to the rest of the quarter. An adjustment has therefore been made to the index at 30 June 2020 to reflect the movement seen in the monthly indices.

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

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

The significant sensitivities arise from movements in the yield curve, inflation rate, house prices and the voluntary redemption rate. An increase of 100bps in the yield curve would decrease the value by £300 million (30 June 2019: £228 million; 31 December 2019: £265 million) and a decrease of 100bps would increase the value by £384 million (30 June 2019: £256 million; 31 December 2019: £296 million). An increase of 1% in the inflation rate would increase the value by £32 million (30 June 2019: £17 million; 31 December 2019: £26 million) and a decrease of 1% would decrease the value by £50 million (30 June 2019: £31 million; 31 December 2019: £43 million).

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

An increase of 10% in house prices would increase the value by £17 million (30 June 2019: £10 million; 31 December 2019: £15 million) and a decrease of 10% would decrease the value by £28 million (30 June 2019: £19 million; 31 December 2019: £25 million). An increase of 5% in mortality would decrease the value by £9 million (30 June 2019: £6 million; 31 December 2019: £8 million) and a decrease of 5% in mortality would increase the value by £6 million (30 June 2019: £3 million; 31 December 2019: £5 million). An increase of 15% in the voluntary redemption rate would decrease the value by £21 million (30 June 2019: £13 million; 31 December 2019: £17 million) and a decrease of 15% in the voluntary redemption rate would increase the value by £18 million (30 June 2019: £11 million; 31 December 2019: £15 million).

The Group also holds investments in commercial real estate loans with a value of £389 million (30 June 2019: £427 million; 31 December 2019: £388 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 2019: £7 million; 31 December 2019: £7 million) and a decrease of 35bps would increase the value by £7 million (30 June 2019: £7 million; 31 December 2019: £7 million).

Also included within debt securities are income strips with a value of £693 million (30 June 2019: £674 million; 31 December 2019: £690 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 £66 million (30 June 2019: £63 million; 31 December 2019: £66 million) and a decrease of 35bps would increase the value by £81 million (30 June 2019: £76 million; 31 December 2019: £79 million).

Borrowings

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £84 million (30 June 2019: £104 million; 31 December 2019: £99 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 £1 million (30 June 2019: £2 million; 31 December 2019: £1 million) and a decrease of 1% would increase the value by £1 million (30 June 2019: £1 million; 31 December 2019: £1 million). An increase of 1% in the house price inflation rate would increase the value by £1 million (30 June 2019: £2 million; 31 December 2019: £1 million) and a decrease of 1% would decrease the value by £1million (30 June 2019: £1 million; 31 December 2019: £1 million).

Corporate transactions

Included within financial assets and liabilities are related debt securities of £31 million (30 June 2019: £49 million; 31 December 2019: £43 million) and derivative liabilities of £3 million (30 June 2019: £8 million; 31 December 2019: £4 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 2020, the net of these balances was an asset of £28 million (30 June 2019: asset of £41 million; 31 December 2019: asset of £39 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 2019: £2 million; 31 December 2019: £2 million) and a decrease of 100bps would increase the aggregate value by £2 million (30 June 2019: £2 million; 31 December 2019: £2 million).

Also included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £167 million (30 June 2019: £132 million; 31 December 2019: £134 million) and £95 million (30 June 2019: £67 million; 31 December 2019: £70 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 £18 million (30 June 2019: £13 million; 31 December 2019: £13 million) and a decrease of 100bps would increase the net value by £19 million (30 June 2019: £17 million; 31 December 2019: £17 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £13 million (30 June 2019: £9 million; 31 December 2019: £10 million) and a decrease of 1% would decrease the value by £14 million (30 June 2019: £8 million; 31 December 2019: £10 million).

Derivatives

Included within derivative liabilities are forward local authority loans, forward private placements and forward infrastructure loans with a value of £47 million (30 June 2019: £27 million; 31 December 2019: £41 million). These investments include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates. These investments are valued using a discounted cash flow model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity.

The credit spreads are derived from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £18 million (30 June 2019: £21 million; 31 December 2019: £25 million) and a decrease of 35bps would increase the value by £20 million (30 June 2019: £23 million; 31 December 2019: £28 million).

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

14.2.5 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2020

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

At 30 June 2019

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

At 31 December 2019

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Debt securities	349	25
Collective investment schemes	19	16

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

The application of the Group's fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads, resulted in an overall net movement from level 2 to Level 1 in the period. This movement is the result of an exercise to harmonise the approach to determining the fair value hierarchy for Level 1 and Level 2 debt securities across the Group during the period. The methodology has been updated to consistently use spread data and trade volume data to determine the activeness of the market. This has resulted in assets being moved from Level 2 to Level 1, and from Level 1 to Level 2.

14.2.6 Movement in Level 3 financial instruments measured at fair value

30 June 2020

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

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

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

As a result of the suspension of certain property collective investment schemes and the inclusion of valuation uncertainty clauses in the valuations of the properties within the collective investment schemes provided by RICS independent valuers, £1,125 million of the property collective investment schemes (and associated investment contract liabilities of £985 million and reinsurer's share of investment contract liabilities of £105 million) were reclassified from Level 2 to Level 3. Further details of the valuation uncertainty associated with these property assets as a result of COVID-19 are included in note 1.1.

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

30 June 2019 restated[1]

	At 1 January 2019 £m	Net (losses)/gains in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 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:								
Equities	1,369	(75)	127	(63)	201	–	1,559	(70)
Debt securities	4,410	191	768	(238)	16	–	5,147	173
Collective investment schemes	793	(61)	7	(12)	–	–	727	(62)
	6,572	55	902	(313)	217	–	7,433	41
Total financial assets	6,734	52	902	(313)	217	–	7,592	38

	At 1 January 2019 £m	Net gains in income statement £m	Effect of 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 of 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)

1 See note 1.2 for details of the restatement.

Notes to the Condensed Consolidated Interim Financial Statements continued

14. FINANCIAL INSTRUMENTS CONTINUED

31 December 2019

	At 1 January 2019 £m	Net gains/(losses) in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2019 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets								
Derivatives	162	13	–	–	–	–	175	13
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,369	65	307	(387)	242	–	1,596	32
Debt securities	4,410	378	1,961	(721)	1	(3)	6,026	322
Collective investment schemes	793	(135)	1	(13)	–	–	646	(136)
	6,572	308	2,269	(1,121)	243	(3)	8,268	218
Total financial assets	6,734	321	2,269	(1,121)	243	(3)	8,443	231

	At 1 January 2019 £m	Net gains in income statement £m	Effect of purchases £m	Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2019 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	109	(35)	–	–	–	–	74	(35)
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	127	(6)	–	(22)	–	–	99	(6)
Total financial liabilities	236	(41)	–	(22)	–	–	173	(41)

15. CASH FLOWS FROM OPERATING ACTIVITIES

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

	Half year ended 30 June 2020 £m	Half year ended 30 June 2019 restated[1] £m	Year ended 31 December 2019 £m
Profit for the period before tax	**611**	217	351
Non-cash movements in profit for the period before tax			
Fair value losses/(gains) on:			
Investment property	**148**	40	55
Financial assets and derivative liabilities	**2,177**	(15,203)	(18,784)
Change in fair value of borrowings	**93**	–	(47)
Amortisation of intangible assets	**187**	202	402
Change in present value of future profits	**81**	(4)	(70)
Change in unallocated surplus	**69**	60	(84)
Share-based payment charge	**8**	6	11
Finance costs	**106**	79	162
Net interest expense on Group defined benefit pension scheme liability/asset	**14**	12	29
Other costs of pension schemes	**2**	3	4
(Increase)/decrease in investment assets	**(1,002)**	4,182	6,131
Decrease/(increase) in reinsurance assets	**1,488**	(162)	(295)
(Decrease)/increase in insurance contract and investment contract liabilities	**(4,456)**	10,584	11,792
Decrease in deposits received from reinsurers	**(127)**	(60)	(236)
Increase in obligation for repayment of collateral received	**1,918**	914	1,026
Net increase in working capital	**(201)**	(242)	(128)
Other items:			
Contributions to defined benefit pension schemes	**(23)**	(23)	(46)
Cash generated by operations	**1,093**	605	273

1 See note 1.2 for details of the restatement.

Notes to the Condensed Consolidated Interim Financial Statements continued

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 2019 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 at 30 June 2020 and as a result an analysis of these transactions has been included below:

	Transactions Half year ended 30 June 2020 £m	**Balances outstanding 30 June 2020 £m**	Transactions Half year ended 30 June 2019 £m	Balances outstanding 30 June 2019 £m	Transactions Year ended 31 December 2019 £m	Balances outstanding 31 December 2019 £m
SLA plc						
Investment management fees	**(52)**	**(44)**	(62)	(59)	(133)	(55)
Fees under Transitional Services Arrangement and material outsource agreements	**(3)**	**(1)**	(3)	(1)	(6)	(4)
Receipts under Transitional Services Arrangement	**32**	**20**	40	15	75	10
Net receipts under Client Service Proposition Agreement	**8**	**30**	10	2	18	23
Net receipts under deed of indemnity	**–**	**–**	11	11	–	–
Net payments under deed of indemnity	**(3)**	**(67)**	–	–	(33)	(64)
Dividend paid	**(33)**	**–**	(33)	–	(67)	–

17. CONTINGENT LIABILITIES

17.1 Agreements with Standard Life Aberdeen

On 23 February 2018, the Group entered into the SLA Share Purchase Agreement with Standard Life Aberdeen, pursuant to the Group's acquisition of the Standard Life Assurance businesses. In connection with the acquisition, certain members of the Group entered into the SLA Transitional Services Agreement ('the TSA') with certain members of the Standard Life Aberdeen group, pursuant to which certain services were agreed to be provided from one group to the other group for a specified period. In addition, certain members of the Group entered into the SLA Client Service and Proposition Agreement ('the CSPA') with certain members of the Standard Life Aberdeen group, which set out the terms under which the parties would provide services and support to each other with respect to certain client propositions, products and services. The Group is currently engaged in ongoing discussions with members of the Standard Life Aberdeen group in respect of disagreements over the operation of certain aspects of the SLA Share Purchase Agreement relating to services and expenses, and the scope and cost of services provided pursuant to the TSA, the CSPA and certain other agreements between the Group and members of the Standard Life Aberdeen group. Whilst Phoenix and Standard Life Aberdeen are currently seeking a commercial resolution in respect of such disagreements, it is possible that all or some of these matters could be escalated to a dispute resolution process provided for in the relevant agreements, or result in legal or arbitration proceedings. There is no certainty as to how the current disagreements will be resolved and the extent to which an outflow of resources will be required to settle any obligation, should it arise.

17.2 Legal proceedings

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

18. EVENTS AFTER THE REPORTING PERIOD

On 21 July 2020 the Company voluntarily cancelled its £500 million bridge facility which was entered into on 27 February 2020, together with all commitments under the facility agreement.

On 22 July 2020, the Group acquired 100% of the issued share capital of ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Ltd, for total consideration of £3.1 billion (as calculated on 22 July 2020). The consideration consisted of £1.3 billion of cash, funded through the issuance of debt and own resources, and the issue of 277,277,138 shares to Swiss Re Group, part of which was transferred to MS&AD Insurance Group Holdings. As at 5 August 2020, the accounting for the acquisition is incomplete and consequently the disclosures required by IFRS 3 Business Combinations have not been made.

On 4 August 2020, Mutual Securitisation plc ('the issuer') redeemed all the outstanding class A2 limited recourse bonds in issue at 30 June 2020. The amount paid to redeem the bonds was £41 million.

On 5 August 2020, the Board declared an interim dividend per share of 23.4p for the half year ended 30 June 2020 (half year ended 30 June 2019: 23.4p). The cost of this dividend has not been recognised as a liability in the interim financial statements for the half year ended 30 June 2020 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 2020

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	3,761	2,137	5,766	8,012	19,676
Debt securities – gilts	4,548	359	13,981	5,344	24,232
Debt securities – other government and supranational	1,638	322	9,775	7,428	19,163
Debt securities – infrastructure loans	391	–	–	–	391
Debt securities – UK local authority loans	359	–	–	–	359
Debt securities – private placements[4]	1,893	–	135	17	2,045
Debt securities – other bonds	10,521	1,584	14,257	21,787	48,149
	19,350	2,265	38,148	34,576	94,399
Equity securities	110	42	14,391	69,422	83,965
Property investments	82	31	1,591	5,087	6,791
Equity release mortgages	3,111	–	–	–	3,111
Commercial real estate loans	389	–	–	–	389
Income strips	–	–	–	693	693
Other investments[5]	464	732	5,354	8,695	15,245
At 30 June 2020	27,267	5,207	65,250	126,485	224,209
Cash and cash equivalents in Group holding companies					1,846
Cash and financial assets in other Group companies					756
Financial assets held by the non-controlling interest in consolidated collective investment schemes					3,085
Total Group consolidated assets					229,896
Comprised of:					
Investment property					5,781
Financial assets					218,651
Cash and cash equivalents					6,505
Derivative liabilities					(1,041)
					229,896

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

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

3 This information is presented on a look through basis to underlying funds where available.

4 Total private placements of £2,045 million include £1,563 million classified as Level 3 debt securities in the fair value hierarchy.

5 Includes policy loans of £9 million, other loans of £309 million, net derivative assets of £5,827 million, reinsurers' share of investment contracts of £8,523 million and other investments of £577 million.

Additional Life Company Asset Disclosures continued

31 December 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	3,486	2,009	4,788	6,391	16,674
Debt securities – gilts	3,905	339	14,167	4,870	23,281
Debt securities – other government and supranational	1,286	300	9,729	8,737	20,052
Debt securities – infrastructure loans	341	–	–	–	341
Debt securities – UK local authority loans	262	–	–	–	262
Debt securities – private placements[4]	1,370	–	131	20	1,521
Debt securities – other bonds	10,485	1,582	14,314	21,485	47,866
	17,649	2,221	38,341	35,112	93,323
Equity securities	145	48	15,962	72,959	89,114
Property investments	92	37	1,890	5,335	7,354
Equity release mortgages	2,781	–	–	–	2,781
Commercial real estate loans	388	–	–	–	388
Income strips	–	–	–	690	690
Other investments[5]	339	386	3,738	9,207	13,670
At 31 December 2019	24,880	4,701	64,719	129,694	223,994
Cash and cash equivalents in Group holding companies					275
Cash and financial assets in other Group companies					616
Financial assets held by the non-controlling interest in consolidated collective investment schemes					3,661
Total Group consolidated assets					228,546
Comprised of:					
Investment property					5,943
Financial assets					218,871
Cash and cash equivalents					4,466
Derivative liabilities					(734)
					228,546

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

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

3 This information is presented on a look through basis to underlying funds where available.

4 Total private placements of £1,521 million include £1,147 million classified as Level 3 debt securities in the fair value hierarchy.

5 Includes policy loans of £10 million, other loans of £284 million, net derivative assets of £3,976 million, reinsurers' share of investment contracts of £8,881 million and other investments of £519 million.

Additional Life Company Asset Disclosures continued

The following table provides a reconciliation of the total life company assets to the Assets Under Administration ('AUA') as detailed in the Business Review on page 9.

	At 30 June 2020 £bn	At 31 December 2019 £bn
Total Life Company assets	**224.2**	224.0
Off-balance sheet AUA[1]	**34.0**	35.1
Less: Standard Life Trustee Investment Plan assets[2]	**(9.9)**	(10.8)
Assets Under Administration	**248.3**	248.3

1 Off-balance sheet AUA represents assets held in respect of certain of the Group's 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.

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

Sector analysis of shareholder bond portfolio	**AAA**	**AA**	**A**	**BBB**	**BB & below**	**Total**
Industrials	**–**	**148**	**116**	**460**	**21**	**745**
Basic materials	**–**	**–**	**39**	**45**	**7**	**91**
Consumer, cyclical	**–**	**209**	**177**	**167**	**21**	**574**
Technology and telecoms	**44**	**154**	**183**	**362**	**28**	**771**
Consumer, non-cyclical	**123**	**209**	**570**	**317**	**33**	**1,252**
Structured finance	**209**	**–**	**57**	**–**	**–**	**266**
Banks	**525**	**429**	**1,492**	**589**	**79**	**3,114**
Financial services	**66**	**253**	**360**	**84**	**7**	**770**
Diversified	**–**	**7**	**17**	**–**	**4**	**28**
Utilities	**28**	**33**	**1,181**	**751**	**48**	**2,041**
Sovereign, sub-sovereign and supranational	**1,160**	**5,743**	**270**	**2**	**51**	**7,226**
Real estate	**33**	**123**	**2,062**	**229**	**62**	**2,509**
Investment companies	**–**	**93**	**13**	**4**	**2**	**112**
Insurance	**–**	**346**	**232**	**51**	**24**	**653**
Oil and gas	**–**	**121**	**135**	**82**	**13**	**351**
Collateralised debt obligations	**213**	**9**	**–**	**–**	**–**	**222**
Private equity loans	**–**	**450**	**49**	**–**	**–**	**499**
Infrastructure	**–**	**–**	**59**	**311**	**21**	**391**
At 30 June 2020	**2,401**	**8,327**	**7,012**	**3,454**	**421**	**21,615**

Sector analysis of shareholder bond portfolio	AAA	AA	A	BBB	BB & below	Total
Industrials	–	141	370	273	19	803
Basic materials	–	–	22	59	8	89
Consumer, cyclical	–	213	185	140	35	573
Technology and telecoms	38	113	253	352	37	793
Consumer, non-cyclical	60	186	438	257	43	984
Structured finance	218	–	56	–	–	274
Banks	452	696	1,563	424	26	3,161
Financial services	147	417	471	101	12	1,148
Diversified	–	7	17	–	5	29
Utilities	26	–	1,237	542	70	1,875
Sovereign, sub-sovereign and supranational	990	4,837	215	21	29	6,092
Real estate	48	112	1,676	244	58	2,138
Investment companies	13	80	27	4	–	124
Insurance	–	295	140	44	22	501
Oil and gas	–	113	120	56	16	305
Collateralised debt obligations	196	9	–	–	–	205
Private equity loans	–	435	–	–	–	435
Infrastructure	–	–	60	281	–	341
At 31 December 2019	2,188	7,654	6,850	2,798	380	19,870

ADDITIONAL CAPITAL DISCLOSURES

PGH PLC SOLVENCY II SURPLUS

The estimated PGH plc surplus at 30 June 2020 is £4.0 billion (31 December 2019: £3.1 billion).

	30 June 2020 Estimated £bn	31 December 2019 £bn
Own Funds	**12.7**	10.8
SCR	**(8.7)**	(7.7)
Surplus	**4.0**	3.1

The Eligible Own Funds reflects a dynamic recalculation of TMTP. Had this not been performed, the surplus would have been £0.3 billion lower.

CALCULATION OF GROUP SOLVENCY

The Solvency II regulations set out two methods for calculating Group solvency, 'Method 1' (being the default accounting based consolidation method) and 'Method 2' (the deduction and aggregation method). Under Method 2, the solo Own Funds are aggregated rather than consolidated on a line by line basis. The SCR is also aggregated, with no allowance for diversification. Method 2 is used for all entities within the Standard Life Assurance businesses 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 2020 Estimated £bn	31 December 2019 £bn
Tier 1 – Unrestricted	**8.5**	8.3
Tier 1 – Restricted	**1.1**	0.5
Tier 2	**2.5**	1.5
Tier 3	**0.6**	0.5
Total Own Funds	**12.7**	10.8

PGH plc's unrestricted Tier 1 capital accounts for 67% (31 December 2019: 77%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

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

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

Tier 3 items include the Tier 3 subordinated notes of £0.5 billion (31 December 2019: £0.4 billion) and the deferred tax asset of £0.1 billion (31 December 2019: £0.1 billion).

Additional Capital Disclosures continued

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 the Standard Formula. An analysis of the pre-diversified SCR of PGH plc is presented below:

	30 June 2020 estimated		31 December 2019	
	Phoenix Internal Model %	**Standard Life Internal Model %**	Phoenix Internal Model %	Standard Life Internal Model %
Longevity	**27**	**18**	26	16
Credit	**21**	**12**	19	12
Persistency	**12**	**24**	12	28
Interest rates	**8**	**6**	8	5
Operational	**5**	**9**	6	9
Swap spreads	**2**	**1**	2	1
Property	**12**	**1**	12	1
Other market risks	**5**	**16**	5	15
Other non-market risks	**8**	**13**	10	13
Total pre-diversified SCR	**100**	**100**	100	100

MINIMUM CAPITAL REQUIREMENTS

Under the Solvency II regulations, the Minimum Capital Requirement ('MCR') is the minimum amount of capital an insurer is required to hold below which policyholders and beneficiaries are deemed to be exposed to an unacceptable level of risk if an insurer were 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 2020 is £1.3 billion (31 December 2019: £1.1 billion).

PGH plc's Method 1 Eligible Own Funds to cover MGSCR is £5.1 billion (31 December 2019: £4.3 billion) leaving an excess of Eligible Own Funds over MGSCR of £3.8 billion (31 December 2019: £3.2 billion), which translates to an MGSCR coverage ratio of 402% (31 December 2019: 386%).

The MCR for the Method 2 part of the Group is £1.3 billion (31 December 2019: £1.2 billion), with Eligible Own Funds of £4.9 billion (31 December 2019: £4.9 billion), leaving an excess of Eligible Own Funds over MCR of £3.6 billion (31 December 2019: £3.7 billion), which translates to an MCR coverage ratio of 374% (31 December 2019: 394%).

ENLARGED GROUP SOLVENCY II SURPLUS

The Group completed the acquisition of ReAssure Group plc and its subsidiaries on 22 July 2020 and this section provides an overview of the Group's Solvency II surplus position for the enlarged Group as if the acquisition took place on 30 June 2020. The result assumes a dynamic recalculation of TMTP.

	30 June 2020 Estimated pro-forma £bn
Own Funds	**16.3**
SCR	**(11.9)**
Surplus	**4.4**
Estimated Group Shareholder Capital Coverage Ratio (%)	**150%**

ADDITIONAL PERFORMANCE MEASURES

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

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

A list of the APMs used in our results as well as their definitions, why they are used and, if applicable, how they can be reconciled to the nearest equivalent GAAP measure is provided below. Further discussion of these measures can be found in the business review from page 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 of the total life company assets to the Group's AUA is provided on page 61. The reconciliation of the total life company assets to the Group's consolidated assets (included within the Group's IFRS consolidated statement of financial position) is included in the Additional Life Company Asset Disclosures section on page 59.
Financial leverage ratio	Financial leverage is calculated by Phoenix (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, the unallocated surplus and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's IFRS consolidated statement of financial position on pages 30 and 31and the analysis of borrowings note on page 48.
Incremental long-term cash generation	Incremental long-term cash generation represents the operating companies' cash generation that is expected to arise in future years as a result of new business transacted in the current period within our UK Open and Europe segments, and from the writing of bulk purchase annuities within our Heritage segment. It excludes any costs associated with the acquisition of the new business.	This measure provides an indication of the Group's performance in delivering new business growth to offset the impact of run-off of the Group's Heritage business and to bring sustainability to future cash generation.	Incremental long-term cash generation is not directly reconcilable to the financial statements as it relates to cash generation expected to arise in the future.

Additional Performance Measures continued

APM	Definition	Why is this measure used	Reconciliation to financial statements
New business contribution – UK Open and Europe	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure provides an assessment of the day 1 value arising on the writing of new business in the UK Open and Europe segments, and is stated after applicable taxation and acquisition costs.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement. Further analysis is provided on page 10.
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of consolidated cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS statement of consolidated cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review section on page 4 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 59.
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 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 11 and in the primary financial statements on page 39.
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 6 and the additional capital disclosures section on page 62.

ADDITIONAL INFORMATION

IN THIS SECTION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') was held on 15 May 2020 at 10.00am (BST).

The voting results for our 2020 AGM, including proxy votes and votes withheld are available on our website at www.thephoenixgroup.com

SHAREHOLDER SERVICES

MANAGING YOUR SHAREHOLDING

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

REGISTRAR DETAILS

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

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

SHARE PRICE

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

GROUP FINANCIAL CALENDAR FOR 2020

Capital markets day	3 December 2020

2020 INTERIM DIVIDEND

Ex-dividend date	13 August 2020
Record date	14 August 2020
Interim 2020 dividend payment date	4 September 2020

FORWARD-LOOKING STATEMENTS

The 2020 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, including in relation to the enlarged Group following the acquisition of ReAssure Group plc and the acquired businesses.

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, initiatives related to the financial crisis, the COVID-19 pandemic and the effect of and the European Union's 'Solvency II' requirements on the Group's capital maintenance requirements;
- the political, legal, social and economic effects of the COVID-19 pandemic and the UK's 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 proposed or 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 2020 Interim Report. No representation is made that any of these statements will come to pass or that any future results will be achieved. As a result, you are cautioned not to place undue reliance on such forward-looking statements contained in this 2020 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2020 Interim Report or any other forward-looking statements it may make or publish.

The 2020 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 2020 Interim Report is or should be construed as a profit forecast or estimate.

ONLINE RESOURCES

REDUCING OUR ENVIRONMENTAL IMPACT

In line with our Sustainability 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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