PHOENIX GROUP

INTERIM REPORT

for the half year ended
30 June 2016

PHOENIX GROUP AT A GLANCE

Phoenix is the UK's largest specialist closed life and pension fund consolidator, looking after c. 4.5 million policyholders.

We manage closed life funds efficiently and securely, protecting our customers' interests while creating value for our shareholders. We have a wide range of products and an operating model specifically designed for closed fund management. This operating model and the expertise of our employees provide the platform and skills to succeed in our market.

2016 key performance indicators

£147m
Operating companies' cash generation

£1.1bn
PLHL Solvency II surplus (estimated)

144%
PLHL shareholder capital coverage ratio (estimated)

£107m
IFRS operating profit

26.7p
Dividend per share

Contents

FOCUS ON VALUE CREATION

...through acquisition and consolidation combined with management actions. We create value for our customers by maximising policyholder returns and for our shareholders by generating capital and releasing excess surplus as dividends.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

"The pending acquisition of AXA Wealth's pensions and protection businesses is in line with Phoenix's strategy of closed life consolidation."

INTRODUCTION

The first half of 2016 has seen Phoenix take an important step forward in its strategy of closed life fund consolidation. The £375 million acquisition of AXA Wealth's pensions and protection business, announced on 27 May, will add £12 billion of assets under management and over 910,000 policies to the Group. The transaction meets our stated acquisition criteria and will generate additional cash to support both increased dividends and maintain the Group's investment grade rating. Phoenix has extensive integration experience and we believe that the acquired businesses are a strong fit, benefiting both shareholders and policyholders alike. It is anticipated that completion will occur during the fourth quarter of 2016, subject to regulatory approvals.

The new Solvency II capital regime came into force on 1 January 2016 and has significantly changed how we manage our business through the use of our approved Internal Model. However, the first six months of the year has also seen significant market uncertainty, exacerbated by the results of the EU Referendum in June, with long-term interest rates declining sharply. As we stated at the time of our full year results in March, the Group's Solvency II surplus is negatively impacted by such moves.

Despite the market uncertainty the Group has been successful in executing management actions and implementing interest rate hedging strategies. This has helped partly mitigate the negative impact of market movements and Phoenix will continue to closely monitor the markets in the coming months in order to ensure that the Group maintains a resilient capital position.

In addition, Phoenix agreed a revised bank facility of £650 million in March, reducing interest costs and extending the maturity of the Group's debt. Furthermore, the facility no longer has any mandatory or target amortisation payments and offers the Group greater flexibility to make acquisitions.

The Board has declared an interim dividend for the first six months of 2016 of 26.7p per share which is scheduled to be paid on 3 October 2016 and is in line with the 2015 interim and final dividends. Following completion of the AXA acquisition, the Board expects to increase the 2016 final dividend by 5% to 28.0p per share. This would increase the dividend per share to 56.0p on an annualised basis, which the Board believes is a sustainable level at which to rebase the dividend going forward.

FINANCIAL PERFORMANCE

DELIVERY OF FINANCIAL TARGETS

Against a full year cash generation target of £350 million to £450 million, £147 million was delivered in the first half of the year and we remain on track to achieve our 2016 target. We reiterate the longer-term cash generation target of £2.0 billion between 2016 to 2020 and anticipate a further £3.1 billion of cash generation from 2021 onwards, a clear demonstration of the long-term cash flow potential of the Group despite the market volatility during the first half of the year. The Group's cash flow targets will be revised following the completion of the AXA acquisition to incorporate the expected cash generation from the acquired businesses.

As at 30 June 2016, Phoenix held £921 million of cash at the level of the Group's holding companies, including £190 million from the equity placing, which provides the Group with resilience from market volatility.

Acquisition of AXA Wealth's pensions and protection businesses

The acquisition comprises a pensions and investments business ('Embassy'), offering a range of propositions catering to both individual and corporate requirements and SunLife, a leader in the over 50s protection sector. The consideration for the acquisition will be funded through the combination of the net proceeds of £190 million from the equity placing on 27 May and a new short-term debt facility.

The Group expects significant diversification benefits, with the mortality exposure of the SunLife business offsetting the Group's existing longevity exposure from its annuity liabilities. Phoenix intends that the acquired businesses will be incorporated within the Group's Solvency II Internal Model, subject to regulatory approval. Phoenix expects net capital synergies of approximately £250 million within six months of completion.

This expected cash release of £250 million is inclusive of the impact of cost synergies of £10 million per annum which the Group expects to realise by leveraging its existing operating platform and outsourcing model. The acquisition will be integrated into Phoenix's operating model which will help identify opportunities for streamlining operations, and Phoenix's governance and customer model will also strengthen oversight of the acquired businesses. There are further opportunities to leverage the Group's outsourcing model with regards to the existing Embassy in-house policy administration and, for SunLife, the existing contractual arrangement with Capita will be maintained, creating a stronger relationship across the Group. These cost synergies are expected to be realised during 2017, with estimated post-tax integration costs of £25 million.

In total, the acquisition is expected to generate cash flows of approximately £0.3 billion between 2016 and 2020 and £0.2 billion from 2021 onwards.

We will invest heavily to ensure a smooth transition of the two businesses from AXA to Phoenix and we are committed to delivering the highest level of service to both direct and IFA customers, as we do for our existing customers. The SunLife business offers additional value through its new business franchise, where it has a recognised brand and a proven track record of direct marketing.

It is anticipated that completion will occur during the fourth quarter of 2016, subject to regulatory approvals.

PHOENIX LIFE CAPITAL POSITION

The Phoenix Life companies hold capital management buffers in addition to the required Solvency Capital Requirement ('SCR') which provide the life companies with additional resilience in the event of market volatility. Any excess over these buffers ('Free Surplus') is available for distribution to the holding companies as cash and the Free Surplus as at the start of 2016 was £0.1 billion. The Free Surplus has been negatively impacted by the fall in long-term interest rates during the first six months of the year and cash remittances to the holding companies. These have been partly offset by management actions including modelling enhancements and additional benefits from the restructure of Opal Re. The net effect has been a reduction in the Free Surplus by £0.1 billion over the first half.

The Group plans to implement further management actions during the remainder of 2016, including further optimisation of Matching Adjustment portfolios and a Part VII transfer of an annuity portfolio currently reinsured to Guardian. These actions will increase the level of Free Surplus and support cash generation from Phoenix Life in the second half of the year.

GROUP CAPITAL POSITION

The Group's surplus under Solvency II, as calculated at the level of Phoenix Life Holdings Limited ('PLHL'), is estimated to be £1.1 billion as at 30 June 2016, compared to £1.3 billion as at 31 December 2015. The Group's estimated Solvency II surplus reflects the recalculation of transitional measures at 30 June 2016, given the significant decline in long-term interest rates during the first half of the year.

In addition, the Group holds over £300 million of liquid assets outside the PLHL Group, including the £190 million of net proceeds from the equity placing in relation to the AXA acquisition. As these additional funds are held outside the PLHL Group, the payment of the interim dividend in October will not impact the Solvency II surplus calculated at PLHL.

The current low interest rate environment may well endure for a significant period of time. However, the Group continues to take actions to mitigate the impact of low interest rates on the Group's cash generation and capital position. These include the continued hedging of market risks as well as examining options to generate additional yield on our assets by investing in alternative asset classes such as equity release mortgages or commercial real estate debt. In addition, we seek to drive efficiencies in how we manage our businesses, thereby reducing costs and exploiting economies of scale.

SIMPLIFICATION OF GROUP STRUCTURE

Phoenix has taken significant steps in recent years to both reduce the level of debt within the Group and simplify its corporate structure and we continue to look for opportunities to further diversify away from senior bank debt to longer-term, subordinated debt. This will allow the Group to better match its debt profile to its long-term cash flows whilst offering the opportunity to rationalise the holding company structure, reducing operating costs and complexity.

The current holding company structure was formed at the time of the Group's restructuring in 2009, with Phoenix Group Holdings being a Cayman Island-registered company domiciled in Jersey. This structure is complex for our stakeholders and imposes additional burdens on our internal governance processes. As part of the ongoing Group simplification process, Phoenix intends to put in place a new UK-registered holding company for the Group in due course.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT
Continued

This will provide Phoenix with a stream-lined and cost-efficient internal governance structure as well as greater clarity for the Group's stakeholders, including shareholders, debt investors and regulators.

IFRS OPERATING PROFIT

The Group achieved IFRS operating profits of £107 million in the first half of 2016, including £14 million from management actions, compared to £135 million in the first half of 2015 which included £23 million of management actions.

REGULATORY AND LEGISLATIVE CHANGES

The Financial Conduct Authority ('FCA') released its thematic review of the fair treatment of long-standing customers in life insurance in March and we welcome the focus the review brings to the fair treatment of policyholders. Our customers and the outcomes of their policies are fundamental to our business model and we continue to seek ways to improve.

There are also a number of ongoing reviews, including the proposed cap of 1% on early exit charges for pension customers aged over 55. Over 80% of our unitised policies have no exit charge at all and to date we have seen no evidence that any of our customers incurring an exit charge is deterred from taking advantage of pension freedoms before their selected retirement date. The Group continues to believe that the financial impact from a 1% cap on exit charges will not be material.

The ending of compulsory annuitisation of pension pots, announced at the time of the 2014 Budget, continues to have a significant impact across the UK life insurance industry. Phoenix Group currently only provides annuities for its own vesting policyholders and wrote a total of £254 million of annuities in the first half of 2016, compared with £208 million in the first half of 2015. £178 million of these are annuities with attractive guaranteed annuity rates ('GARs'), and the take-up rates of these continue to be high.

CUSTOMERS

Phoenix Life continues to be committed to delivering a high level of customer service. We recognise the importance of timely payments to our customers and have continued to deliver our pensions payments made through the Origo Faster Transfers system in around 11 days on average. Complaint handling is also a key area of focus and this is demonstrated by our strong performance as measured by the Financial Ombudsman Service with an overturn rate of 18%. We are pleased to note this remains significantly below industry benchmarks. Incoming volumes of complaints continue to decrease and currently only represent 0.3% of customer transactions. We continue to monitor customer satisfaction, with the vast majority of our customers surveyed satisfied with the service they receive. Finally, we remain on course to meet our 2016 target to deliver £50 million of management actions to accelerate the distribution of our with-profits estate, which directly benefits our with-profit policyholders through increased future bonuses.

There remains the risk of fraudsters targeting our customers and we have seen further attempts to do so under the pretext of the EU Referendum. We have remained active in publicising the risk of pension fraud through media campaigns and have prevented a total of over £28 million of fraudulent transfers.

OUTLOOK

It appears likely that the current market volatility will continue for some time and Phoenix is not immune to a further deterioration in long-term interest rates. However, the first six months have demonstrated the Group's resilience and we will continue to remain focused on the achievement of the financial targets we have set ourselves.

Following the announcement of the AXA acquisition, I continue to believe that the impact of regulatory changes will provide Phoenix with a number of further opportunities, as open life companies are forced to reappraise their business models and strategies for their legacy policies. The Group has demonstrated how its Solvency II Internal Model is a key tool in assessing acquisitions, providing more accurate pricing and understanding of synergy and diversification benefits. Together with an operating model specifically designed for closed life fund consolidation, the Group is well placed to generate value from further acquisitions.

I would also like to welcome Wendy Mayall, John Pollock and Nicholas Shott as Directors to the Board. All three new members of the Board bring extensive experience and join the Group at an exciting time in its development. I look forward to working with them as Phoenix addresses the challenges of operating in a low interest rate environment whilst taking advantage of opportunities to grow the business.

Finally, I would also like to thank my colleagues for their hard work during the first half of the year. Despite the ongoing economic uncertainty, the Group can look forward to the future with confidence.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

24 AUGUST 2016

BUSINESS REVIEW

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BUSINESS REVIEW

"The Group's financial performance remained resilient in the first half of the year despite market uncertainties and we remain on track to deliver our 2016 targets."

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

INTRODUCTION

Following the implementation of Solvency II, the Group's capital is managed on a Solvency II basis. Phoenix was granted approval for its Internal Model in December 2015 and this is the basis upon which the Group's risks and capital requirements are managed. Consequently, we have aligned our key performance metrics to the Solvency II framework and information on the Group's MCEV basis is no longer presented.

Our strategy has historically focused on cash flows and this remains the case under the new framework, with the Solvency II capital position underpinning the Group's cash generation, driven by the free surplus of Phoenix Life. More information on these linkages is presented in the Capital Management section.

The Group has been adversely impacted by the unfavourable market movements during the first half of 2016. However, we continue to take actions to mitigate the effects of market volatility to ensure that the Group maintains a stable capital position.

The continued low interest rate environment has triggered changes to the Group's expectations of persistency for products with guarantees and this has adversely impacted IFRS operating profit in the period. This has been partly offset by the positive impacts of amendments to IFRS actuarial reserving estimates and assumptions to more closely align to the Solvency II requirements.

Cash generation

£147m

Operating companies' cash generation

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

With cash generation of £147 million, the Group is on track to meet its full year cash generation target of £350 million to £450 million.

HOLDING COMPANIES' CASH FLOWS

The Group's closed life funds provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to shareholders and for repayment of outstanding debt. Although investment returns are less predictable, some of this risk is borne by policyholders.

The following analysis of cash flows reflects the cash paid by the operating companies to the Group's holding companies, as well as the uses of these cash receipts:

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m
Cash and cash equivalents at 1 January	**706**	988
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**147**	110
Total cash receipts[1]	**147**	110
Uses of cash:		
Operating expenses	**(15)**	(13)
Pension scheme contributions	**(8)**	(8)
Debt interest	**(8)**	(32)
Total recurring outflows	**(31)**	(53)
Non-recurring outflows	**(25)**	(9)
Uses of cash before debt repayments and shareholder dividend	**(56)**	(62)
Debt repayments	**(6)**	(60)
Shareholder dividend	**(60)**	(60)
Total uses of cash	**(122)**	(182)
Equity raise (net of fees)	**190**	–
Cash and cash equivalents at 30 June[2]	**921**	916

1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £44 million (HY15: £43 million).
2 Closing balance at 30 June 2016 includes required prudential cash buffer of £150 million (30 June 2015: £150 million).

CASH RECEIPTS

Cash remitted by the operating companies was £147 million (HY15: £110 million) which comprises cash receipts of £85 million from the sale of certain investments held by Opal Re and other receipts from Phoenix Life of £62 million. The 2016 dividends from Phoenix Life have been deferred to the second half of 2016 pending delivery of management actions.

The Group remains on track to meet its cash generation target range of between £350 million and £450 million in 2016.

RECURRING CASH OUTFLOWS

Operating expenses of £15 million (HY15: £13 million) are in line with the prior period and reflect costs of the corporate office partially offset by investment income.

Pension scheme contributions of £8 million (HY15: £8 million) are in line with the latest triennial funding agreements.

Debt interest decreased to £8 million (HY15: £32 million) reflecting lower principal balances following repayments made in 2015. The HY15 comparative included payment of the £20 million coupon on the Tier 1 bonds prior to their exchange for the PGH Capital subordinated notes. The coupon on the PGH Capital subordinated notes will be settled in the second half of 2016 in line with the terms and conditions of the notes.

NON-RECURRING CASH OUTFLOWS

Non-recurring cash outflows of £25 million include Group costs associated with restructuring and corporate related projects.

The increase compared to the prior period reflects costs associated with hedging and acquisition activity undertaken in the first half of 2016.

DEBT REPAYMENTS AND SHAREHOLDER DIVIDEND

Debt repayments of £6 million were in respect of the redemption of the remaining Tier 1 bonds.

The shareholder dividend of £60 million comprises the payment of the 2015 final dividend.

EQUITY RAISE (NET OF FEES)

The £190 million is in relation to proceeds from the equity placement in association with the pending acquisition of AXA Wealth's pensions and protection business.

TARGET CASH FLOWS

The five-year cumulative target cash flow for 2016 to 2020 is £2.0 billion, of which £350 million to £450 million is expected to be achieved in 2016.

The resilience of the cash generation target is demonstrated by the following stress testing[1]:

	1 Jan 2016 to 31 Dec 2020 £bn
Base case five-year target	**2.0**
Following a 20% fall in equity markets	**2.0**
Following a 15% fall in property values	**2.0**
Following a 75bps interest rates rise[2]	**2.1**
Following a 75bps interest rates fall[2]	**1.9**
Following credit spread widening[3]	**1.9**
Following 5% decrease in annuitant mortality rates[4]	**1.8**

1 Assumes stress occurs on 30 June 2016 and there is no market recovery during the cash generation target period.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 100bps spread widening across ratings, 10% of which is due to defaults/downgrades. Equivalent by rating: AAA – 39bps, AA – 57bps, A – 91bps, BBB – 174bps.
4 Equivalent of six months increase in longevity.

BUSINESS REVIEW
Continued

Capital management

£1.1bn

PLHL Solvency II surplus (estimated)

The estimated PLHL Solvency II surplus of £1.1 billion (FY15: £1.3 billion) has been adversely impacted by the market movements during the period.

The reduction in the period also reflects the payment of the 2015 final dividend and the upstreaming of the 2016 interim dividend to Phoenix Group Holdings.

144%

PLHL shareholder capital coverage ratio (estimated)

The estimated shareholder capital coverage ratio of 144% (FY15: 154%) has reduced as a result of the factors which impacted the Solvency II surplus.

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

- To provide appropriate security for policyholders and meet all regulatory capital requirements under the Solvency II regime while not retaining unnecessary excess capital.
- To ensure sufficient liquidity to meet obligations to policyholders and other creditors.
- To optimise the overall financial leverage ratio to maintain an investment grade credit rating.
- To meet the dividend expectations of shareholders as set by the Group's dividend policy.

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

Since 1 January 2016, the Group has monitored its regulatory capital adequacy under the new Solvency II regime, details of which are included below.

PLHL SOLVENCY II SURPLUS (ESTIMATED)

In accordance with European Insurance and Occupational Pension Authority ('EIOPA') and PRA requirements, from 1 January 2016 the Group now undertakes a Solvency II capital adequacy assessment at the level of the highest EEA insurance group holding company, which is PLHL.

This involves a valuation in line with Solvency II principles of PLHL's own funds and a risk-based assessment using an internal model of PLHL's solvency capital requirements ('SCR').

PLHL's own funds differ materially from the Group's IFRS equity for a number of reasons, including the exclusion of the Group's bank debt held outside of the PLHL sub-group, the recognition of future shareholder transfers from the with-profit funds (but not the shareholder share of the estate), the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably with regard to insurance contract liabilities and intangible assets. In addition, PLHL own funds excludes cash and other financial assets held outside of the PLHL Group which exceeded £300 million as at 30 June 2016, and included the proceeds of the equity raise of £190 million.

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' and is calculated in accordance with the Group's PRA approved internal model. As a closed fund insurer, the Group does not need to hold capital to fund the writing of new business.

The estimated PLHL Solvency II surplus position at 30 June 2016 is set out below:

	Half year ended 30 Jun 2016 £bn	Year ended 31 Dec 2015 £bn
Own funds[1]	**6.1**	5.7
Solvency capital requirement[2]	**(5.0)**	(4.4)
Solvency II surplus[3]	**1.1**	1.3

1 PLHL 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-transferrable and fungible between Group companies within a period of nine months.
2 Solvency capital requirements relate to the risks and obligations, to which the PLHL Group is exposed, calculated using the Group's approved internal model.
3 Equates to a coverage ratio of 122% as at 30 June 2016 (130% at 31 December 2015).

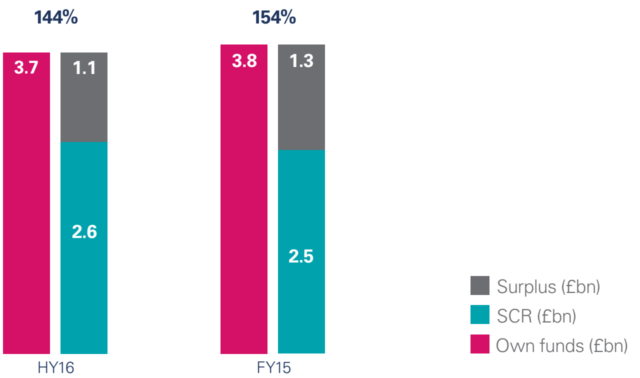
The estimated Solvency II surplus has reduced to £1.1 billion (FY15: £1.3 billion) as a result of the following factors:

- Surplus generation and expected run-off of capital requirements of £0.1 billion.
- The positive impact of management actions undertaken in the period of £0.1 billion. This includes £63 million of management actions that have increased own funds in the period, and £23 million of management actions that have decreased SCR.
- £(0.1) billion dividend payments, including the impact of upstreaming the 2016 interim dividend to Phoenix Group Holdings.
- The adverse impacts of economic movements, actuarial reserving updates and other items of £(0.3) billion.

The estimated Solvency II surplus excludes surpluses arising in the Group's with-profit funds and the Group pension schemes of £0.3 billion. In the calculation of the surplus, the SCR of the with-profit funds and the Group pension schemes is included, but the related own funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and the Group pension schemes, whilst not included in the PLHL Solvency II surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

Excluding the SCR and own funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the estimated Solvency II shareholder capital coverage ratio is 144% as at 30 June 2016 (154% at 31 December 2015). The Pearl Group Staff Pension Scheme did not cover its SCR as at 30 June 2016 and the related own funds and SCR are therefore included in the shareholder capital coverage ratio calculation.

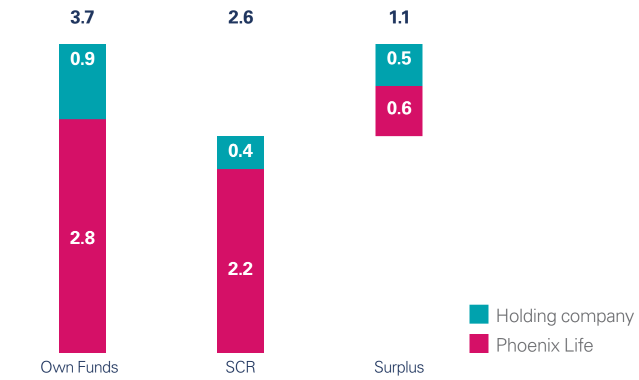
SHAREHOLDER CAPITAL COVERAGE RATIO[1]



1 The shareholder capital surplus excludes own funds and SCR of the unsupported with-profit funds and the PGL Pension Scheme. The Solvency II own funds of the unsupported with-profit funds and the PGL Pension Scheme exceed their SCR. Where a with-profit fund or Group pension scheme cannot cover its SCR, its own funds and SCR are included within the shareholder capital surplus.

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

BREAKDOWN OF SHAREHOLDER CAPITAL POSITION £bn



Own funds within the holding companies of £0.9 billion (FY15: £1.0 billion) principally comprises cash and other financial assets held in the holding companies and the IAS19 surplus of the Pearl Group Staff Pension Scheme.

Own funds within Phoenix Life comprise £1.0 billion (FY15: £1.0 billion) in the shareholders' funds, £0.7 billion (FY15: £0.7 billion) in the non-profit funds, £0.7 billion (FY15: £0.7 billion) in the supported with-profit funds and future shareholder transfers of £0.4 billion (HY15: £0.4 billion).

Phoenix Life free surplus represents the Solvency II surplus of the life companies that is in excess of their Board approved capital management policies. As at 30 June 2016, Phoenix Life's contribution to the PLHL Solvency II surplus of £0.6 billion is fully utilised to cover the capital management policies.

The table below analyses the movement in the Phoenix Life free surplus during the period:

	Half year ended 30 Jun 2016 £bn
Opening free surplus	**0.1**
Surplus generation and expected run-off of capital requirements	0.1
Management actions	0.1
Economics, actuarial updates and other items	(0.2)
Free surplus before cash remittances	**0.1**
Cash remittances to holding companies	(0.1)
Closing free surplus (estimated)	**–**

The Phoenix Life free surplus excludes £48 million of financial assets held in Opal Re as at 30 June 2016.

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[1] are provided below and demonstrate the resilience of the PLHL Solvency II surplus.

	Estimated PLHL Solvency II surplus 30 Jun 2016 £bn
Base: 30 June 2016	1.1
Following a 20% fall in equity markets	1.1
Following a 15% fall in property values	1.1
Following a 75bps interest rates rise[2]	1.1
Following a 75bps interest rates fall[2]	1.0
Following credit spread widening[3]	1.0
Following 5% decrease in annuitant mortality rates[4]	0.9

1 Assumes stress occurs on 30 June 2016.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 100bps spread widening across ratings, 10% of which is due to defaults/downgrades. Equivalent by rating: AAA – 39bps, AA – 57bps, A – 91bps, BBB – 174bps.
4 Equivalent of six months increase in longevity.

BUSINESS REVIEW
Continued

IFRS operating profit

£107m
IFRS operating profit

Group IFRS operating profit has decreased to £107 million (HY15: £135 million), primarily driven by the adverse impacts of actuarial reserve strengthening in the period, partly offset by the positive impacts of updates made to the IFRS reserving methodology to more closely align to the Solvency II requirements.

GROUP IFRS OPERATING PROFIT

The Group has generated an IFRS operating profit of £107 million (HY15: £135 million).

Group operating profit	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m
Phoenix Life	**108**	141
Group costs	**(1)**	(6)
Operating profit before adjusting items	**107**	135
Investment return variances and economic assumption changes on long-term business	**(147)**	44
Variance on owners' funds	**130**	(4)
Amortisation of acquired in-force business, customer relationships and other intangibles	**(40)**	(48)
Non-recurring items	**(14)**	1
Profit before finance costs attributable to owners	**36**	128
Finance costs attributable to owners	**(46)**	(49)
(Loss)/profit before the tax attributable to owners:	**(10)**	79
Tax credit/(charge) attributable to owners	**13**	(1)
Profit for the period attributable to owners	**3**	78

PHOENIX LIFE

Operating profit for Phoenix Life is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudential margins and the interest cost of unwinding the discount on the liabilities). The principal assumptions underlying the calculation of the long-term investment return are set out in note 5 to the IFRS interim financial statements.

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

Phoenix Life operating profit	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m
With-profit	**39**	36
With-profit where internal capital support provided	**(51)**	9
Non-profit and unit-linked	**65**	76
One-off impact of IFRS methodology change	**38**	–
Long-term return on owners' funds	**3**	5
Management services	**14**	15
Phoenix Life operating profit before tax	**108**	141

The with-profit operating profit of £39 million represents the shareholders' one-ninth share of the policyholder bonuses and is in line with the comparative period (HY15: £36 million).

The with-profit funds where internal capital support has been provided generated an operating loss of £51 million (HY15: £9 million profit). The loss is principally driven by the recognition of a provision to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with guarantees, resulting in an adverse impact of £64 million on the result for the period.

The operating profit on non-profit and unit-linked funds decreased to £65 million (HY15: £76 million). The reduction primarily reflects the adverse one-off impacts of actuarial modelling enhancements undertaken in the period to extend the products and liabilities eligible for matching adjustment.

Following the implementation of Solvency II, certain changes have been made to the assumptions and estimates used in the valuation of insurance contract liabilities to more closely align the IFRS reserving methodology with Solvency II requirements. As the Group manages its capital on a Solvency II basis, the changes will mean that the IFRS results will more closely reflect the way the business is managed and the Group's risk hedging strategies. The changes have resulted in an overall favourable impact of £38 million to Phoenix Life IFRS operating profit. The overall profile for the emergence of future IFRS operating profits is expected to be materially unchanged as a result of these updates. More details on the changes are provided in note 12 to the IFRS interim financial statements.

The long-term return on owners' funds of £3 million (HY15: £5 million) reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities. The investment policy for managing these assets remains prudent.

The operating profit for management services of £14 million (HY15: £15 million) comprises income from the life companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs. The decrease compared to the prior period principally reflects the impact of life company run-off.

GROUP COSTS

Group costs in the period were £1 million (HY15: £6 million). The reduction compared to the prior period principally reflects an increased return on the higher opening pension scheme surpluses of both the PGL Pension Scheme and the Pearl Group Staff Pension Scheme.

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

The negative investment return variances and economic assumption changes on long-term business of £147 million (HY15: £44 million positive) are primarily driven by adverse market movements during the period.

The majority of the negative variance is driven by the adverse impact of falling yields on the life funds. Offsetting impacts have arisen in the owners' funds which hold interest rate hedging positions (see variance on owners' funds below).

The investment return variances have also been adversely impacted by losses arising on equity hedging positions held by the life funds following equity market gains in the period. The equity market gains are not reflected in the IFRS balance sheet as they are in respect of future profits.

VARIANCE ON OWNERS' FUNDS

The positive variance on owners' funds of £130 million (HY14: £4 million negative) is principally driven by interest rate hedging positions held in the life companies' shareholder funds. The majority of the gain reflects the impact of falling yields on interest rate hedging positions undertaken to protect the life companies' capital position.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the operating companies in 2009. The acquired in-force business is being amortised in line with the run-off of the life companies. Amortisation of acquired in-force business during the period totalled £33 million (HY15: £41 million). Amortisation of other intangible assets totalled £7 million in the period (2015: £7 million).

NON-RECURRING ITEMS

Non-recurring items of £(14) million (HY15: £1 million positive) include a £14 million gain following completion of data review procedures associated with the reassurance of PLAL annuities in 2015 and a £3 million positive impact of a pension increase exchange exercise in respect of the PGL Pension Scheme. These items have been more than offset by the recognition of a £16 million cost of providing for claims relating to creditor insurance underwritten by a subsidiary of the Group, PA (GI) Limited, prior to 2006, £12 million of corporate project costs and a £3 million adverse impact of other one-off items. The prior period result included an £11 million release of cost provisions associated with external regulatory changes, including the cap on workplace pension charges and the pension guidance levy partly offset by £8 million of corporate project costs and £2 million of net other items.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m
Bank finance costs	**12**	17
Other finance costs	**34**	32
Finance costs attributable to owners	**46**	49

Finance costs have decreased by £3 million, comprising a £5 million reduction in bank finance costs primarily driven by restructuring and repayments of bank debt, and £2 million increase in other finance costs attributable to interest on the £428 million subordinated notes issued during the first half of 2015.

TAX CREDIT ATTRIBUTABLE TO OWNERS

The Company is exempt from tax in the Cayman Islands on any profits, income, gains or appreciations for a period of 30 years from 11 May 2010.

With effect from the acquisition of the operating subsidiaries in the third quarter of 2009, the Company has been managed and controlled from Jersey, where its permanent office premises are located. As a Jersey resident holding company, the Company is subject to a 0% tax rate on its income. Consequently, tax charged in these accounts primarily represents UK tax on profits earned in the UK, where the principal subsidiaries have their centre of operations.

The Group tax credit for the period attributable to owners is £13 million (HY15: £1 million tax charge) based on a loss (after policyholder tax) of £(10) million (HY15: £79 million profit). The actual tax credit is different from the expected tax credit (based on the UK corporation tax rate of 20%) of £2 million primarily due to certain profit being either non-taxable or taxable at rates other than the standard rate and the recognition of previously unrecognised deferred tax assets (see note 6 to the IFRS interim financial statements for analysis).

RISK MANAGEMENT

"The Group has an embedded Risk Management Framework that is forward-looking and proactive to manage risk within risk appetite. Strong risk governance founded on the three lines of defence supports policyholder security and the safe execution of the Group's strategy."

WAYNE SNOW
GROUP CHIEF RISK OFFICER

INTRODUCTION

Our framework and risk infrastructure enabled us to take proactive measures to prepare for the EU referendum result and the volatile interest rate environment which followed.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

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

CHANGE IN RISK FROM LAST YEAR	TREND
Risk Improving	↑
No Change	–
Risk Deteriorating	↓

RISK	IMPACT	MITIGATION	CHANGE FROM LAST YEAR
In times of severe market turbulence, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or it may suffer a loss in value.	The emerging cash flows of the Group may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's capital position.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against adverse customer and shareholder outcomes. The Group also maintains cash buffers in its holding companies to reduce reliance on emerging cash flows.	↓ Markets have been particularly turbulent following the EU Referendum. Yields on UK government debt and swap rates have fallen markedly. Phoenix prepared for this potential outcome by reducing residual interest rate exposure using a combination of interest rate swaps and swaptions. However, the fall in yields this year has decreased the Group's excess capital position. The position continues to be closely monitored and managed, particularly in the low interest environment. Credit markets have been relatively stable over the year to date while equity market volatility is largely hedged.

RISK	IMPACT	MITIGATION	CHANGE FROM LAST YEAR
Adverse changes in experience versus actuarial assumptions.	The Group has liabilities under annuities and other policies that are sensitive to future longevity, mortality and persistency rates. Changes in assumptions may lead to changes in the assessed level of liabilities to policyholders. The amount of additional capital required to meet those liabilities could have a material adverse impact on the Group's results, financial condition and prospects.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any variances in assumptions. The Group has also entered into reinsurance contracts to manage this risk within appetite.	↓ Policyholder take-up of valuable guarantees expected to increase in a low interest rate environment.
Significant counterparty failure.	Assets held to meet obligations to policyholders include debt securities. Phoenix Life is exposed to deterioration in the actual or perceived creditworthiness or default of issuers. An increase in credit spreads on debt securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could have a material adverse impact on the Group's financial condition. The Group is also exposed to trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements or stock-borrowers failing to pay as required.	The Group regularly monitors its counterparty exposure and has specific limits relating to individual holdings, counterparty credit rating, sector and geography. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised and guaranteed.	– The Group continues to monitor counterparty exposures holistically across all counterparty obligations, both in respect of debt securities and trading. In some cases individual counterparty holdings have been adjusted to ensure the Group remains within risk appetite.
Changes in the regulatory and legislative landscape may impact the way that Phoenix Life engages with its customers.	The move to the conduct-focused regulator has seen a continued move away from rules-based regulation with a greater focus on customer outcomes. This may challenge the existing approach and/or may result in remediation exercises.	The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes to the regulatory landscape. The Group assesses the risks of regulatory change and the impact on our operations and lobbies where appropriate.	– Phoenix has focused on activities identified following publication of the 'Fair Treatment of Customers in Closed Books' review to enhance our management of conduct risk. Phoenix is making the necessary preparations for the introduction of the proposed 1% cap on exit charges for those over 55 accessing pension freedoms and the secondary annuity market. The financial impacts of these are not expected to be material.

RISK MANAGEMENT
Continued

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP (CONTINUED)

The current assessment of the residual risk in respect of each of the Group's principal risks is illustrated in the chart opposite.

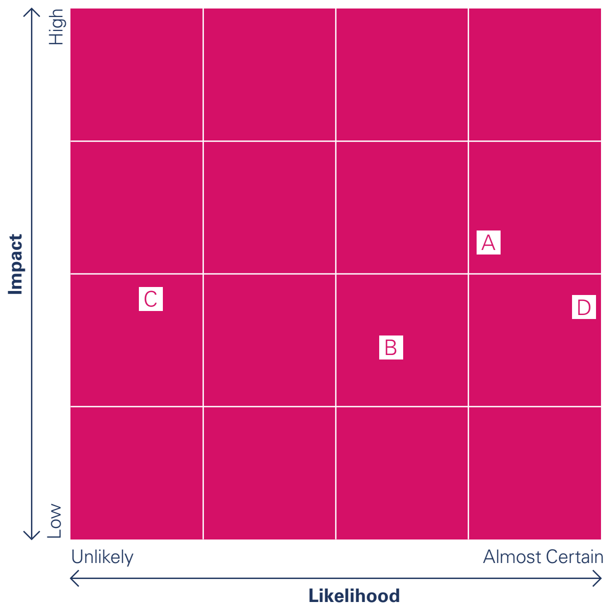
The residual risk is the remaining risk after controls and mitigating actions have been taken into account.

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

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

RISK TITLE	DESCRIPTION	RISK UNIVERSE CATEGORY
Regulatory Thematic Reviews	The unknown consequences and the potential impact, including retrospective activity, as a result of Thematic Reviews conducted by regulators.	Customer
Voluntary Charges Cap	The FCA has noted that they are seeking a 'voluntary solution' on paid up and exit charges for legacy products.	Customer
Political Risk	Unexpected changes in the legislative environment and the impacts on financial markets driven by the political agenda following the UK's decision to leave the European Union.	Strategic
Tax Risk	Changes announced in the Spring Budget propose limiting the credit that life companies can take for offsetting incurred losses against future profits from April 2017.	Financial Soundness

PRINCIPAL RISKS



RISK

- A Market Volatility
- B Actuarial Assumptions
- C Counterparty Exposure
- D Regulatory and Legislative Changes

FINANCIALS

IN THIS SECTION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- the condensed consolidated interim financial statements for the half year ended 30 June 2016, 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 and its consolidated subsidiaries taken as whole;
- the Interim Report includes a fair view of the state of affairs of Phoenix Group Holdings and its consolidated subsidiaries as at 30 June 2016 and for the financial half year to which the Interim Report relates, as required by DTR 4.2.7 of the Disclosure and Transparency Rules. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings and its consolidated subsidiaries for the remaining six months of the year; and
- the Interim Report includes, as required by DTR 4.2.8, a 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.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

ST HELIER, JERSEY
24 AUGUST 2016

PHOENIX GROUP HOLDINGS BOARD OF DIRECTORS

CHAIRMAN

Henry Staunton

EXECUTIVE DIRECTORS

Clive Bannister
James McConville

NON-EXECUTIVE DIRECTORS

René-Pierre Azria
Alastair Barbour
Ian Cormack
Isabel Hudson
Kory Sorenson
David Woods

AUDITOR'S REVIEW REPORT

To: The Board of Directors of Phoenix Group Holdings

INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2016 which comprises the condensed consolidated income statement, the condensed statement of consolidated comprehensive income, the pro forma reconciliation of Group operating profit to result attributable to owners, the condensed statement of consolidated financial position, the condensed statement of consolidated cash flows, the condensed statement of consolidated changes in equity and the related notes on pages 26 to 50. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

DIRECTORS' RESPONSIBILITIES

The interim financial report is the responsibility of, and has been approved by, the Directors.

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

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim 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 Ireland) 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 set of financial statements in the interim financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

ERNST & YOUNG LLP

LONDON
24 AUGUST 2016

CONDENSED CONSOLIDATED INCOME STATEMENT
For the half year ended 30 June 2016

	Notes	**Half year ended 30 Jun 2016 £m**	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Gross premiums written		**449**	415	902
Less: premiums ceded to reinsurers		**(25)**	(28)	(1,376)
Net premiums written		**424**	387	(474)
Fees		**36**	47	95
Net investment income		**4,450**	372	1,064
Total revenue, net of reinsurance payable		**4,910**	806	685
Other operating income		**16**	4	7
Net income		**4,926**	810	692
Policyholder claims		**(1,783)**	(1,851)	(3,931)
Less: reinsurance recoveries		**218**	150	326
Change in insurance contract liabilities		**(2,727)**	1,617	2,959
Change in reinsurers' share of insurance contract liabilities		**36**	(233)	1,003
Transfer from unallocated surplus		**32**	40	84
Net policyholder claims and benefits incurred		**(4,224)**	(277)	441
Change in investment contract liabilities		**(277)**	(126)	(232)
Acquisition costs		**(3)**	(4)	(7)
Change in present value of future profits		**(5)**	(4)	(6)
Amortisation and impairment of acquired in-force business		**(38)**	(45)	(148)
Amortisation of customer relationships		**(7)**	(7)	(15)
Administrative expenses		**(225)**	(218)	(430)
Net income attributable to unitholders		**(25)**	(12)	(7)
Total operating expenses		**(4,804)**	(693)	(404)
Profit before finance costs and tax		**122**	117	288
Finance costs		**(62)**	(69)	(136)
Profit for the period before tax		**60**	48	152
Tax (charge)/credit attributable to policyholders' returns	6	**(70)**	31	33
(Loss)/profit before the tax attributable to owners		**(10)**	79	185
Tax (charge)/credit	6	**(57)**	30	97
Add: tax attributable to policyholders' returns	6	**70**	(31)	(33)
Tax credit/(charge) attributable to owners	6	**13**	(1)	64
Profit for the period attributable to owners		**3**	78	249
Attributable to:				
Owners of the parent		**2**	51	201
Non-controlling interests	10	**1**	27	48
		3	78	249
Earnings per share				
Basic (pence per share)	7	**0.2p**	22.7p	89.8p
Diluted (pence per share)	7	**0.2p**	22.7p	89.6p

CONDENSED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

For the half year ended 30 June 2016

	Notes	**Half year ended 30 Jun 2016 £m**	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Profit for the year		**3**	78	249
Other comprehensive income/(expense):				
Items that are or may be reclassified to profit or loss:				
Reclassification adjustments relating to foreign collective investment schemes disposed of in the period		**–**	(10)	(10)
Items that will not be reclassified to profit or loss:				
Owner-occupied property revaluation gains		**–**	–	4
Remeasurements of net defined benefit asset		**239**	(43)	11
Tax (charge)/credit relating to other comprehensive income items	6	**(1)**	1	(5)
Total other comprehensive income/(expense) for the period		**238**	(52)	–
Total comprehensive income for the period		**241**	26	249
Attributable to:				
Owners of the parent		**240**	(1)	201
Non-controlling interests	10	**1**	27	48
		241	26	249

Financials

PRO FORMA RECONCILIATION OF GROUP OPERATING PROFIT TO RESULT ATTRIBUTABLE TO OWNERS

For the half year ended 30 June 2016

	Notes	**Half year ended 30 Jun 2016 £m**	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Operating profit				
Phoenix Life		**108**	141	336
Group costs		**(1)**	(6)	(12)
Total operating profit before adjusting items		**107**	135	324
Investment return variances and economic assumption changes on long-term business	5.2	**(147)**	44	13
Variance on owners' funds	5.3	**130**	(4)	(12)
Amortisation on acquired in-force business		**(33)**	(41)	(75)
Amortisation of customer relationships		**(7)**	(7)	(15)
Non-recurring items	4.2	**(14)**	1	49
Profit before finance costs attributable to owners		**36**	128	284
Finance costs attributable to owners		**(46)**	(49)	(99)
(Loss)/profit before tax attributable to owners	4.2	**(10)**	79	185
Tax credit/(charge) attributable to owners		**13**	(1)	64
Profit for the period attributable to owners		**3**	78	249

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at 30 June 2016

	Notes	30 Jun 2016 £m	30 Jun 2015 £m	31 Dec 2015 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	9	**–**	–	–
Share premium		**991**	921	861
Shares held by employee benefit trust		**(3)**	(5)	(5)
Foreign currency translation reserve		**96**	93	96
Owner-occupied property revaluation reserve		**4**	–	4
Retained earnings		**1,718**	1,287	1,478
Total equity attributable to owners of the parent		**2,806**	2,296	2,434
Non-controlling interests	10	**–**	536	570
Total equity		**2,806**	2,832	3,004
Liabilities				
Insurance contract liabilities				
Liabilities under insurance contracts	12	**42,642**	41,184	39,983
Unallocated surplus		**845**	925	877
		43,487	42,109	40,860
Financial liabilities				
Investment contracts		**7,867**	8,250	7,905
Borrowings	13	**1,748**	2,108	1,998
Deposits received from reinsurers		**414**	385	378
Derivatives		**1,780**	1,700	1,360
Net asset value attributable to unitholders		**6,499**	5,218	5,120
Obligations for repayment of collateral received		**2,064**	818	725
	14	**20,372**	18,479	17,486
Provisions		**41**	22	28
Deferred tax		**355**	331	354
Reinsurance payables		**18**	10	19
Payables related to direct insurance contracts		**367**	389	364
Current tax		**17**	58	7
Accruals and deferred income		**146**	146	128
Other payables		**717**	999	677
Liabilities classified as held for sale	3.2	**1,671**	1,895	1,587
Total liabilities		**67,191**	64,438	61,510
Total equity and liabilities		**69,997**	67,270	64,514

	Notes	30 Jun 2016 £m	30 Jun 2015 £m	31 Dec 2015 £m
ASSETS				
Pension scheme asset	11	**763**	396	506
Intangible assets				
Goodwill		**39**	39	39
Acquired in-force business		**1,227**	1,368	1,265
Customer relationships		**195**	210	202
Present value of future profits		**12**	19	17
		1,473	1,636	1,523
Property, plant and equipment		**19**	15	19
Investment property		**596**	1,817	1,942
Financial assets				
Loans and receivables		**928**	454	577
Derivatives		**3,881**	1,660	1,498
Equities		**12,322**	12,765	12,351
Investment in associate		**458**	–	–
Investment in joint venture		**–**	138	–
Fixed and variable rate income securities		**34,028**	35,871	31,814
Collective investment schemes		**3,312**	3,668	3,826
	14	**54,929**	54,556	50,066
Insurance assets				
Reinsurers' share of insurance contract liabilities		**3,928**	2,601	3,954
Reinsurance receivables		**29**	32	29
Insurance contract receivables		**6**	9	9
		3,963	2,642	3,992
Current tax		**2**	5	47
Prepayments and accrued income		**369**	402	335
Other receivables		**663**	695	474
Cash and cash equivalents		**5,621**	3,245	3,940
Assets classified as held for sale	3.2	**1,599**	1,861	1,670
Total assets		**69,997**	67,270	64,514

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS
For the half year ended 30 June 2016

	Notes	**Half year ended 30 Jun 2016 £m**	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Cash flows from operating activities				
Cash generated/(utilised) by operations	15	**1,601**	(1,551)	(576)
Taxation paid		**(4)**	(103)	(110)
Net cash flows from operating activities		**1,597**	(1,654)	(686)
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**190**	2	2
Proceeds from issuing shares in subsidiaries to non-controlling interests		**–**	10	35
Ordinary share dividends paid	8	**(60)**	(60)	(120)
Coupon paid on Perpetual Reset Capital Securities	10.1	**(1)**	(20)	(20)
Cash settlement of Perpetual Reset Capital Securities	10.1	**(6)**	(3)	(3)
Fees associated with the issuance of subordinated notes	13	**–**	(3)	(3)
Fees associated with the amendment of existing bank facility		**(3)**	–	–
Dividends paid to non-controlling interests	10	**–**	(11)	(23)
Repayment of policyholder borrowings		**(13)**	(94)	(118)
Repayment of shareholder borrowings		**–**	(60)	(190)
Proceeds from new policyholder borrowings, net of associated expenses		**–**	99	99
Interest paid on policyholder borrowings		**–**	(3)	(15)
Interest paid on shareholder borrowings		**(23)**	(25)	(85)
Net cash flows from financing activities		**84**	(168)	(441)
Net increase/(decrease) in cash and cash equivalents		**1,681**	(1,822)	(1,127)
Cash and cash equivalents at the beginning of the period		**3,940**	5,067	5,067
Cash and cash equivalents at the end of the period		**5,621**	3,245	3,940

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the half year ended 30 June 2016

	Share capital (note 9) £m	Share premium £m	Shares held by employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 10) £m	Total £m
At 1 January 2016	–	861	(5)	96	4	1,478	2,434	570	3,004
Profit for the period	–	–	–	–	–	2	2	1	3
Other comprehensive income for the period	–	–	–	–	–	238	238	–	238
Total comprehensive income for the period	–	–	–	–	–	240	240	1	241
Issue of ordinary share capital, net of associated commissions and expenses	–	190	–	–	–	–	190	–	190
Dividends paid on ordinary shares	–	(60)	–	–	–	–	(60)	–	(60)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(1)	(1)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	2	2	–	2
Redemption of non-controlling interests	–	–	–	–	–	–	–	(6)	(6)
Elimination of non-controlling interest following loss of control	–	–	–	–	–	–	–	(564)	(564)
Shares distributed by employee benefit trust	–	–	2	–	–	(2)	–	–	–
At 30 June 2016	–	991	(3)	96	4	1,718	2,806	–	2,806

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the half year ended 30 June 2015

	Share capital (note 9) £m	Share premium £m	Shares held by employee benefit trust £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 10) £m	Total £m
At 1 January 2015	–	979	(8)	103	1,291	2,365	913	3,278
Profit for the period	–	–	–	–	51	51	27	78
Other comprehensive expense for the period	–	–	–	(10)	(42)	(52)	–	(52)
Total comprehensive (expense)/income for the period	–	–	–	(10)	9	(1)	27	26
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	2	–	2
Dividends paid on ordinary shares	–	(60)	–	–	–	(60)	–	(60)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(11)	(11)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	(15)	(15)
Credit to equity for equity-settled share-based payments	–	–	–	–	2	2	–	2
Shares subscribed for by non-controlling interests	–	–	–	–	–	–	10	10
Exchange of non-controlling interests for subordinated notes	–	–	–	–	–	–	(388)	(388)
Loss on exchange of non-controlling interests	–	–	–	–	(12)	(12)	–	(12)
Shares distributed by employee benefit trust	–	–	3	–	(3)	–	–	–
At 30 June 2015	–	921	(5)	93	1,287	2,296	536	2,832

	Share capital (note 9) £m	Share premium £m	Shares held by employee benefit trust £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 10) £m	Total £m
At 1 January 2015	–	979	(8)	103	–	1,291	2,365	913	3,278
Profit for the period	–	–	–	3	–	198	201	48	249
Other comprehensive (expense)/income for the period	–	–	–	(10)	4	6	–	–	–
Total comprehensive (expense)/income for the period	–	–	–	(7)	4	204	201	48	249
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	–	2	–	2
Dividends paid on ordinary shares	–	(120)	–	–	–	–	(120)	–	(120)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(23)	(23)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(15)	(15)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	4	4	–	4
Shares subscribed for by non-controlling interests	–	–	–	–	–	–	–	35	35
Exchange of non-controlling interests for subordinated notes	–	–	–	–	–	–	–	(388)	(388)
Loss on exchange of non-controlling interests	–	–	–	–	–	(12)	(12)	–	(12)
Shares distributed by employee benefit trust	–	–	9	–	–	(9)	–	–	–
Shares acquired by employee benefit trust	–	–	(6)	–	–	–	(6)	–	(6)
At 31 December 2015	–	861	(5)	96	4	1,478	2,434	570	3,004

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 2016 comprise the interim financial statements of Phoenix Group Holdings ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 18 to 50 and were authorised by the Board of Directors for issue on 24 August 2016. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young LLP and their review report appears on page 17.

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ('IASB'). The accounting policies applied in the interim financial statements are consistent with those set out in the 2015 consolidated financial statements except for the adoption of new standards and interpretations effective from 1 January 2016 as referred to below.

The interim financial statements do not include all the information and disclosures required in the 2015 consolidated financial statements, and should be read in conjunction with the Group's 2015 Annual Report and Accounts.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2016:

- Annual Improvements to IFRS 2012 – 2014 cycle;
- Disclosure initiative (amendments to IAS 1); and
- Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38).

These standards, interpretations or amendments that have been applied for the first time in 2016 do not impact the 2016 interim financial statements, and are not expected to have a significant impact on the 2016 consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

2. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the 2015 consolidated financial statements.

As a result of the deconsolidation of the UK Commercial Property Trust Limited and the subsequent recognition of the Group's remaining interest in the structure as an associate during the period (see note 3.2.4), the Group accounting policy for associates is as noted below:

Investments in associates that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Investments in Associates and Joint Ventures*. These are measured at fair value through profit or loss. There are no investments in associates which are of a strategic nature.

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Following the implementation of the Solvency II regulatory regime effective from 1 January 2016, the Group has made certain changes to the assumptions and estimates used in the valuation of insurance contracts. Further details of the changes are included in note 12.3.

3. ACQUISITIONS, ASSETS AND LIABILITIES HELD FOR SALE AND DISPOSALS

3.1 ACQUISITIONS

On 27 May 2016, the Group announced that Pearl Life Holdings Limited, a subsidiary undertaking of the Group, had entered into conditional agreements with AXA UK plc to acquire AXA Wealth's pensions and protection businesses. Cash consideration of £375 million (net of adjustment for expected items as at completion) will be payable on completion and will be funded through a combination of the net proceeds of an equity placing (see note 9) and a new short-term debt facility (see note 13).

Completion is expected to occur in the fourth quarter of 2016, subject to regulatory approvals.

3.2 ASSETS AND LIABILITIES OF OPERATIONS CLASSIFIED AS HELD FOR SALE AND DISPOSALS

The balances transferred to assets and liabilities classified as held for sale in the condensed statement of consolidated financial position as at 30 June 2016 relate to the anticipated Part VII transfer of a portfolio of annuity liabilities to ReAssure Limited (see note 3.2.1). The balances as at 30 June 2015 related to the anticipated Part VII transfer and the agreement to sell Scottish Mutual International (see note 3.2.2). The balances as at 31 December 2015 related to the anticipated Part VII transfer and the agreement to sell the Group's interest in an investment property joint venture held by Pearl Breakfast Unit Trust (see note 3.2.3).

Details of the loss of control of UK Commercial Property Trust Limited and the disposal of Castle Hill Credit Opportunities Holdings Limited are included in notes 3.2.4 and 3.2.5 respectively.

	Carrying amount 30 Jun 2016 £m	Carrying amount 30 Jun 2015 £m	Carrying amount 31 Dec 2015 £m
Assets classified as held for sale:			
Financial assets	**–**	177	–
Reinsurer's share of insurance contract liabilities	**1,599**	1,630	1,521
Investment in joint venture	**–**	–	149
Cash and cash equivalents	**–**	51	–
Other assets	**–**	3	–
	1,599	1,861	1,670
Liabilities classified as held for sale:			
Liabilities under insurance contracts	**1,671**	1,893	1,587
Payables related to direct insurance contracts	**–**	1	–
Other liabilities	**–**	1	–
	1,671	1,895	1,587

3.2.1 ANNUITY LIABILITIES TRANSFER

On 31 July 2014, the Group entered into a reinsurance agreement, effective from 1 January 2014 to reinsure certain portfolios of the Group's annuity liabilities to ReAssure Life Limited (formerly Guardian Assurance Limited) in exchange for the transfer of financial assets of £1.7 billion. The annuity in-payment liabilities are currently held in the Group's with-profit funds. It is highly probable that the reinsurance agreement will be replaced by a formal scheme under Part VII of the Financial Services and Markets Act 2000 to transfer the annuity liabilities to ReAssure Limited, a fellow subsidiary of ReAssure Life Limited. Management's expectations are that the necessary approvals will be in place by the end of 2016 and all parties remain committed to completing the Part VII. Accordingly, the assets and liabilities to be transferred have been classified as held for sale.

Liabilities classified as held for sale include the annuity liabilities reinsured to ReAssure Life Limited and directly attributable expense reserves where they will be extinguished at the time of transfer. Assets classified as held for sale include the associated reinsurer's share of insurance contract liabilities.

Under the terms of this reinsurance agreement, ReAssure Life Limited holds assets in a collateral account over which the Group has a fixed charge.

3.2.2 SCOTTISH MUTUAL INTERNATIONAL ('SMI')

On 29 June 2015, the Group and Harcourt Life Assurance Company Limited ('HLAC'), a subsidiary of Life Company Consolidation Group signed a disposal agreement under which HLAC agreed to acquire the entire issued share capital of SMI. Assets and liabilities of SMI were classified as held for sale as at 30 June 2015.

On 2 December 2015, the Group completed the sale for gross consideration of £14 million following a pre-completion capital reduction. The carrying value of the net assets transferred was £1 million, which excluded £11 million of recoverables under an intercompany reinsurance agreement that was previously eliminated on consolidation. Transaction costs were £2 million and no profit or loss was recognised on disposal.

3.2.3 PEARL BREAKFAST UNIT TRUST

On 25 February 2016, the Group completed the sale of its entire interest in the Pearl Breakfast Unit Trust. The units in the Pearl Breakfast Unit Trust were sold to Tesco Property Holdings (No.2) Limited and Tesco Property Holdings Limited. As part of the sale agreement Tesco plc also purchased the Group's investment in Tesco Property Partner (GP) Limited.

3.2.4 UK COMMERCIAL PROPERTY TRUST LIMITED ('UKCPT')

In February 2016, the Group reduced its holding in the issued share capital of UKCPT to 48.9%. The Group deems that it no longer exercises control over UKCPT. The reduction in its ownership percentage below 50% coupled with the existence of a relationship agreement and a lack of representation on the Board has removed the Group's unilateral power of veto in general meetings and has placed additional restrictions on the ability of the Group to exercise control. Consequently, UKCPT has been deconsolidated from the date of this loss of control. No gain or loss arose on this effective disposal. The Group's investment in UKCPT is now treated as an associate and held at fair value.

The Group's remaining interest in UKCPT continues to be held in the with-profit funds of the Group's life companies. Therefore, the shareholder exposure to fair value movements in the Group's investment in UKCPT continues to be limited to the impact of those movements on the shareholder share of distributed profits of the relevant fund.

Net assets disposed of were as follows:

	Carrying amount on the date of loss of control £m
Cash received	**2**
Fair value of associate retained	**498**
Change in insurance contract liabilities	**64**
Less: Group's share of net assets at the date of loss of control	
Investment property	**(1,308)**
Collective investment schemes	**(51)**
Other receivables	**(15)**
Cash and cash equivalents	**(30)**
Borrowings	**248**
Derivative liabilities	**3**
Other payables	**25**
Non-controlling interest	**564**
Profit recognised on loss of control	**–**

3.2.5 CASTLE HILL CREDIT OPPORTUNITIES HOLDINGS LIMITED ('CHCOHL')

During the second half of 2015, the Group completed the disposal of its entire investment in the sterling (class A) loan notes of CHCOHL. No gain or loss arose on the disposal of the investment as the net assets of the structure were carried at fair value in the consolidated financial statements.

4. SEGMENTAL ANALYSIS

The Group defines and presents operating segments based on the information which is provided to the Board.

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

For management purposes, the Group is organised into business units based on their products and services and only had the Phoenix Life operating segment during the reporting period.

Segment performance is evaluated based on profit or loss which, in certain respects, is presented differently from profit or loss in the consolidated financial statements. Group financing (including finance costs) and owners' taxes are managed on a Group basis and are not allocated to individual operating segments.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

4. SEGMENTAL ANALYSIS continued

4.1 SEGMENTAL RESULT

Half year ended 30 June 2016

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	424	–	424
Fees	36	–	36
Net investment income	4,413	37	4,450
Other operating income	16	–	16
Net income	4,889	37	4,926
Net policyholder claims and benefits incurred	(4,224)	–	(4,224)
Amortisation:			
Amortisation of acquired in-force business	(38)	–	(38)
Amortisation of customer relationships	(7)	–	(7)
	(45)	–	(45)
Other expenses	(517)	(18)	(535)
Total expenses	(4,786)	(18)	(4,804)
Profit before finance costs and tax	103	19	122
Finance costs	(28)	(34)	(62)
Profit/(loss) before tax	75	(15)	60
Tax attributable to policyholders' returns	(70)	–	(70)
Segmental result before the tax attributable to owners	5	(15)	(10)

Half year ended 30 June 2015

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	387	–	387
Fees	47	–	47
Net investment income:	364	8	372
Other operating income:	4	–	4
Net income	802	8	810
Net policyholder claims and benefits incurred	(277)	–	(277)
Amortisation:			
Amortisation of acquired in-force business	(45)	–	(45)
Amortisation of customer relationships	(7)	–	(7)
	(52)	–	(52)
Other expenses	(346)	(18)	(364)
Total expenses	(675)	(18)	(693)
Profit/(loss) before finance costs and tax	127	(10)	117
Finance costs	(32)	(37)	(69)
Profit/(loss) before tax	95	(47)	48
Tax attributable to policyholders' returns	31	–	31
Segmental result before the tax attributable to owners	126	(47)	79

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

4. SEGMENTAL ANALYSIS continued

4.1 SEGMENTAL RESULT continued

Year ended 31 December 2015

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	(474)	–	(474)
Fees	95	–	95
Net investment income	1,048	16	1,064
Other operating income	7	–	7
Net income	676	16	692
Net policyholder claims and benefits incurred	441	–	441
Amortisation and impairment:			
Amortisation and impairment of acquired in-force business	(148)	–	(148)
Amortisation of customer relationships	(15)	–	(15)
	(163)	–	(163)
Other expenses	(651)	(31)	(682)
Total operating expenses	(373)	(31)	(404)
Profit/(loss) before finance costs and tax	303	(15)	288
Finance costs	(60)	(76)	(136)
Profit/(loss) before tax	243	(91)	152
Tax attributable to policyholders' returns	33	–	33
Segmental result before the tax attributable to owners	276	(91)	185

4.2 RECONCILIATION OF OPERATING PROFIT/(LOSS) BEFORE ADJUSTING ITEMS TO THE SEGMENTAL RESULT

Half year ended 30 June 2016

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss) before adjusting items	108	(1)	107
Investment return variances and economic assumption changes on long-term business	(147)	–	(147)
Variance on owners' funds	102	28	130
Amortisation of acquired in-force business	(33)	–	(33)
Amortisation of customer relationships	(7)	–	(7)
Non-recurring items	(6)	(8)	(14)
Finance costs attributable to owners	(12)	(34)	(46)
Segment result before the tax attributable to owners	5	(15)	(10)

Non-recurring items include:

- a gain of £14 million arising as a result of a premium adjustment on the reassurance arrangement with RGA International following completion of a data review;
- positive impact of pension increase exchange exercise of £3 million in respect of PGL Pension Scheme (see note 11);
- the costs of providing for claims relating to creditor insurance underwritten prior to 2016 by a subsidiary of the Group, PA(GI) Limited, of £16 million;
- corporate project costs of £12 million; and
- net other one-off items totalling a cost of £3 million.

Half year ended 30 June 2015

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss) before adjusting items	141	(6)	135
Investment return variances and economic assumption changes on long-term business	44	–	44
Variance on owners' funds	(1)	(3)	(4)
Amortisation of acquired in-force business	(41)	–	(41)
Amortisation of customer relationships	(7)	–	(7)
Non-recurring items	2	(1)	1
Finance costs attributable to owners	(12)	(37)	(49)
Segment result before the tax attributable to owners	126	(47)	79

Non-recurring items include:

- the release of cost provisions associated with external regulatory changes, including the cap on workplace pension charges and the pension guidance levy of £11 million;
- corporate project costs of £8 million; and
- net other one-off items totalling a cost of £2 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

4. SEGMENTAL ANALYSIS continued

4.2 RECONCILIATION OF OPERATING PROFIT/(LOSS) BEFORE ADJUSTING ITEMS TO THE SEGMENTAL RESULT continued

Year ended 31 December 2015

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss) before adjusting items	336	(12)	324
Investment return variances and economic assumption changes on long-term business	13	–	13
Variance on owners' funds	(7)	(5)	(12)
Amortisation of acquired in-force business	(75)	–	(75)
Amortisation of customer relationships	(15)	–	(15)
Non-recurring items	47	2	49
Finance costs attributable to owners	(23)	(76)	(99)
Segment result before the tax attributable to owners	276	(91)	185

Non-recurring items include:

- gain of £49 million (net of £64 million impairment of associated acquired in-force business) arising as a result of the reassurance arrangement entered into with RGA International;
- release of provisions associated with external regulatory changes, including the cap on workplace pension charges and the pension guidance levy, of £17 million;
- corporate project costs of £13 million; and
- net other one-off items (including Solvency II implementation and systems transformation costs) totalling a cost of £4 million.

5. 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.

5.1 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 risk-free yields at the start of each financial year. In line with changes made to align assumptions and estimates used in the valuation of insurance contracts with the requirements of the Solvency II regime (see note 12.3), the assumptions used in the calculation of the long-term investment return have also been updated.

From 1 January 2016, the long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the EIOPA swap curve plus 10bps (30 June 2015 and 31 December 2015: Annualised return on the FTSE UK gilt index plus 10bps). A risk premium of 350bps is added to the risk-free yield for equities (30 June 2015 and 31 December 2015: 300bps), 250bps for properties (30 June 2015 and 31 December 2015: 200bps), 150bps for other fixed interest assets (30 June 2015 and 31 December 2015: 100bps) and 50bps for gilts (30 June 2015 and 31 December 2015: nil). If the current period long-term investment return had been calculated using a gilts plus 10bps reference rate adjusted for the relevant risk premium (as used in prior periods), the impact on operating profit for the period would be negligible.

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

	Half year ended 30 Jun 2016 %	Half year ended 30 Jun 2015 %	Year ended 31 Dec 2015 %
Equities	**5.6**	5.3	5.3
Properties	**4.6**	4.3	4.3
Gilts	**2.6**	2.3	2.3
Other fixed interest	**3.6**	3.3	3.3

5.2 LIFE ASSURANCE BUSINESS

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

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

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

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

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Investment return variances and economic assumption changes on long-term business	**(147)**	44	13

Negative investment return variances and economic assumption changes on long-term business of £147 million in the first half of 2016 (half year ended 30 June 2015: positive £44 million; year ended 31 December 2015: positive £13 million) resulted from the adverse impact of a fall in yields on the life funds. Offsetting impacts have arisen in the owners' funds which hold interest rate hedging positions (see note 5.3). The investment return variances have also been adversely impacted by losses arising on equity hedging positions held by life funds following equity market gains in the period. Included in the negative variance is the minority share of the result of the consolidated UKCPT property investment structure prior to its derecognition as a subsidiary in the period of £1 million (half year ended 30 June 2015: £26 million; year ended 31 December 2015: £46 million).

5.3 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 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Variance on owners' funds of subsidiary undertakings	**130**	(4)	(12)

The positive variance on owners' funds of subsidiary undertakings of £130 million (30 June 2015: negative £4 million; 31 December 2015: negative £12 million) is principally driven by fair value gains on interest rate hedging positions held by the shareholder funds and holding companies. The majority of the gain reflects the impact of falling yields on interest rate hedging positions undertaken to protect the Life Company capital positions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

6. TAX CHARGE/(CREDIT)

6.1 CURRENT PERIOD TAX CHARGE/(CREDIT)

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Current tax:			
UK corporation tax	**63**	7	11
Overseas tax	**–**	6	8
	63	13	19
Adjustment in respect of prior years	**(5)**	(10)	(99)
Total current tax charge/(credit)	**58**	3	(80)
Deferred tax:			
Origination and reversal of temporary differences	**(2)**	(33)	7
Change in the rate of UK corporation tax	**1**	–	(24)
Total deferred tax credit	**(1)**	(33)	(17)
Total tax charge/(credit)	**57**	(30)	(97)
Attributable to:			
– policyholders	**70**	(31)	(33)
– owners	**(13)**	1	(64)
Total tax charge/(credit)	**57**	(30)	(97)

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge/(credit) attributable to policyholder earnings was £70 million (half year ended 30 June 2015: £(31) million; year ended 31 December 2015: £(33) million).

6.2 TAX CHARGED/(CREDITED) TO OTHER COMPREHENSIVE INCOME

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Current tax credit on share schemes	**–**	–	(1)
Deferred tax charge on defined benefit schemes	**1**	–	5
Deferred tax (credit)/charge on share schemes	**–**	(1)	1
Total tax charged/(credited) to other comprehensive income	**1**	(1)	5

6.3 RECONCILIATION OF TAX CHARGE/(CREDIT)

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Profit before tax	**60**	48	152
Policyholder tax (charge)/credit	**(70)**	31	33
(Loss)/profit before the tax attributable to owners	**(10)**	79	185
Tax charge at standard UK[1] rate of 20% (30 June 2015: 20.25%; 31 December 2015: 20.25%)	**(2)**	16	37
Non-taxable income and gains	**(6)**	(12)	(13)
Disallowable expenses	**7**	3	6
Prior year tax (credit)/charge for shareholders	**(2)**	5	(41)
Movement on acquired in-force amortisation at less than 20% (30 June 2015: 20.25%; 31 December 2015: 20.25%)	**–**	1	15
Profits taxed at rates other than 20% (30 June 2015: 20.25%; 31 December 2015: 20.25%)	**(4)**	(10)	(36)
Recognition of previously unrecognised deferred tax assets	**(7)**	(3)	(6)
Deferred tax rate change	**1**	–	(24)
Temporary differences not valued	**–**	–	(1)
Other	**–**	1	(1)
Owners' tax (credit)/charge	**(13)**	1	(64)
Policyholder tax charge/(credit)	**70**	(31)	(33)
Total tax charge/(credit) for the period	**57**	(30)	(97)

1 The Phoenix Life operating segment operates predominately in the UK. The reconciliation of the tax charge/(credit) has therefore been completed by reference to the standard rate of UK tax rather than by reference to the Jersey income tax rate of 0% which is applicable to Phoenix Group Holdings.

The Finance Act 2014 set the rate of corporation tax at 20% from 1 April 2015. Finance (No.2) Act 2015 reduces the rate of corporation tax to 19% from April 2017 and 18% from April 2020. Consequently, a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

A further 1% reduction, to 17%, effective from April 2020 was announced in the 2016 Budget and will be introduced by future legislation. The benefit to the Group's net assets arising from the further 1% reduction in the tax rate is estimated at £7 million in total and will be recognised when the legislation is substantively enacted.

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 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	**17**	18	16
Provisions and other temporary differences	**–**	6	4
Deferred tax assets not recognised on capital losses[2]	**87**	114	89

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

7. EARNINGS PER SHARE

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

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

7.1 BASIC EARNINGS PER SHARE

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

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Profit for the period	**3**	78	249
Share of result attributable to non-controlling interests	**(1)**	(27)	(48)
Profit attributable to owners of the parent	**2**	51	201

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

	Half year ended 30 Jun 2016 Number million	Half year ended 30 Jun 2015 Number million	Year ended 31 Dec 2015 Number million
Issued ordinary shares at beginning of the period	**225**	225	225
Effect of ordinary shares issued	**4**	–	–
Own shares held by employee benefit trust	**(1)**	(1)	(1)
Weighted average number of ordinary shares	**228**	224	224

Basic earnings per share is as follows:

	Half year ended 30 Jun 2016 pence	Half year ended 30 Jun 2015 pence	Year ended 31 Dec 2015 pence
Basic earnings per share	**0.2**	22.7	89.8

7.2 DILUTED EARNINGS PER SHARE

The result attributable to owners for the parent used in the calculation of diluted earnings per share is the same as that used in the basic earnings per share calculation in note 7.1 above. The diluted weighted average number of ordinary shares outstanding during the period is 229 million (half year ended 30 June 2015: 225 million; year ended 31 December 2015: 225 million). The Group's deferred bonus share schemes and sharesave share-based schemes increased the weighted average number of shares on a diluted basis by 373,129 for the half year ended 30 June 2016 (half year ended 30 June 2015: 637,830; year ended 31 December 2015: 490,276).

Diluted earnings per share is as follows:

	Half year ended 30 Jun 2016 pence	Half year ended 30 Jun 2015 pence	Year ended 31 Dec 2015 pence
Diluted earnings per share	**0.2**	22.7	89.6

The following instruments could potentially dilute basic earnings per share in the future but have not been included in the diluted earnings per share figure because they did not have a dilutive effect for the periods presented due to the exercise price of the warrants being significantly higher than the share price of the Company:

- 5 million warrants issued to certain entities providing finance to the Group on 2 September 2009.

8. DIVIDENDS ON ORDINARY SHARES

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Dividend declared and paid	**60**	60	120

On 22 March 2016, the Board recommended a dividend of 26.7p per share in respect of the year ended 31 December 2015. The dividend was approved at the Company's Annual General Meeting, which was held on 11 May 2016. The dividend amounted to £60 million and was paid on 13 May 2016.

9. SHARE CAPITAL

	30 Jun 2016 £	30 Jun 2015 £	31 Dec 2015 £
Authorised:			
410 million (30 June 2015: 410 million; 31 December 2015: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750	31,750
Issued and fully paid:			
248.1 million (30 June 2015: 225.3 million; 31 December 2015: 225.4 million) ordinary shares of €0.0001 each	**20,219**	18,457	18,463

Movements in share capital during the period:

	Number	**£**
Shares in issue at 1 January 2016	**225,419,446**	**18,463**
Placement of ordinary shares	**22,542,000**	**1,748**
Other ordinary shares issued in the period	**103,528**	**8**
Shares in issue at 30 June 2016	**248,064,974**	**20,219**

On 1 June 2016, the Group completed an equity placing of 22,542,000 new ordinary shares in association with the proposed acquisition of AXA Wealth's pensions and protection business (see note 3.1), which raised gross proceeds of £194 million. The proceeds from the equity placing, net of deduction of commissions and expenses, were £190 million.

During the year, the Company issued 103,528 shares at a total premium of £1 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

	Number	£
Shares in issue at 1 January 2015	225,090,284	18,439
Other ordinary shares issued in the period	256,156	18
Shares in issue at 30 June 2015	225,346,440	18,457
Other ordinary shares issued in the period	73,006	6
Shares in issue at 31 December 2015	225,419,446	18,463

During 2015, the Company issued 329,162 shares at a total premium of £2 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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10. NON-CONTROLLING INTERESTS

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January 2016	**7**	**563**	**570**
Profit for the period	**–**	**1**	**1**
Coupons paid, net of tax relief	**(1)**	**–**	**(1)**
Redemption of Notes	**(6)**	**–**	**(6)**
Derecognition of non-controlling interest following loss of control	**–**	**(564)**	**(564)**
At 30 June 2016	**–**	**–**	**–**

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January 2015	408	505	913
Profit for the period	1	26	27
Dividends paid	–	(11)	(11)
Coupons paid, net of tax relief	(15)	–	(15)
Exchange of Notes for subordinated notes	(388)	–	(388)
Shares in subsidiaries subscribed for by non-controlling interests	–	10	10
At 30 June 2015	6	530	536
Profit for the period	1	20	21
Dividends paid	–	(12)	(12)
Shares in subsidiaries subscribed for by non-controlling interests	–	25	25
At 31 December 2015	7	563	570

10.1 PERPETUAL RESET CAPITAL SECURITIES

On 1 January 2010, Pearl Group Holdings (No.1) Limited ('PGH1') had in issue £500 million of Perpetual Reset Capital Securities ('the Notes'). Following amendments made to the Notes during 2010, the aggregate amount payable on redemption of the Notes was £425 million. On 23 January 2015, the Group exchanged 99% of the Notes for £428 million of new subordinated notes, issued by PGH Capital Limited and £3 million of cash. £32 million of the new notes are held by Group Companies. The exchange resulted in a loss of £12 million which was recognised in equity. On 23 January 2015, the coupon that was due on the Notes was settled with the noteholders that exchanged their Notes. On 25 April 2015, the 2015 coupon was settled in full with the remaining noteholders.

On 25 April 2016, the coupon that was due on the remaining Notes was settled and PGH1 redeemed the remaining £6 million of Notes at par.

10.2 UK COMMERCIAL PROPERTY TRUST LIMITED ('UKCPT')

UKCPT is a property investment company which is domiciled in Guernsey and is admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. In February 2016, the Group reduced its holdings to 48.9% (half year ended 30 June 2015: 52%; year ended 31 December 2015: 50%) of the issued share capital of UKCPT. The Group deems that it no longer exercises control over UKCPT and as a result UKCPT has been deconsolidated from the effective date of this loss of control. The Group's remaining interest in UKCPT is recognised as an associate and held at fair value (see note 3.2.4).

11. PENSION SCHEMES

The condensed statement of consolidated financial position incorporates the pension scheme assets of the PGL Pension Scheme and the Pearl Group Staff Pension Scheme as at 30 June 2016. The pension scheme asset of the PGL Pension Scheme amounted to £536 million (30 June 2015: £363 million; 31 December 2015: £401 million); this has been adjusted by £21 million (30 June 2015: £23 million; 31 December 2015: £22 million) to eliminate on consolidation the carrying value of insurance policies effected by the PGL Pension Scheme with the Group. The pension scheme asset of the Pearl Group Staff Pension Scheme amounted to £227 million (30 June 2015: £33 million; 31 December 2015: £105 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 triennial funding valuation of the PGL Pension Scheme as at 30 June 2015 was completed in June 2016. This showed a surplus as at 30 June 2015 of £164 million. There has been no change made to the current schedule of contributions and cash contributions of £15 million per annum will be paid to the PGL Pension Scheme until 31 August 2017. The triennial funding valuation of the Pearl Group Staff Pension Scheme is expected to be completed in the second half of 2016.

In January 2016, the Group carried out a pension increase exchange exercise in respect of the PGL Pension Scheme. Existing in-scope pensioners were offered the option to exchange future non-statutory pension increases for a one-off uplift to their current pension, thereby reducing longevity and inflation risk for the Group. The financial effect of all acceptances received in the period has been recognised in the interim financial statements as a reduction in scheme liabilities of £3 million shown as a past service credit in the condensed consolidated income statement.

In February 2016, the Group commenced a flexible retirement option exercise whereby in scope members who are eligible to retire within the PGL Pension Scheme were offered paid for financial advice to assist them in making the decision whether to transfer out of the Scheme (based on standard terms) or to take a pension. The financial effect of all acceptances received as at 30 June 2016 have been recognised in the interim financial statements and no experience gain or loss on liabilities arose as a result of this exercise.

12. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS

12.1 VALUATION OF PARTICIPATING INSURANCE AND INVESTMENT CONTRACTS

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

12.2 VALUATION OF NON-PARTICIPATING INSURANCE CONTRACTS

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

12.3 PROCESS USED TO DETERMINE ASSUMPTIONS

Following the implementation of the Solvency II regulatory regime effective from 1 January 2016, the Group has made certain changes to the assumptions and estimates used in the valuation of insurance contracts, as follows:

- In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group has amended the risk-free reference curve from a gilt yield curve plus a liquidity premium of 10bps to the EIOPA swap curve plus 10bps.
- For non-participating insurance contract liabilities, the Group has previously used a valuation rate of interest and adjusted the liability discount rate by reference to the yield on the assets backing the liabilities to account for credit, default and reinvestment risk. The Group now makes an explicit adjustment to the risk-free rate to adjust for illiquidity in respect of assets backing illiquid liabilities. The new approach does not take any additional credit for investment margins compared to the previous methodology.
- For non-participating insurance contract liabilities, the Group previously derived demographic assumptions by adding an implicit prudent margin to best estimate assumptions. The Group has amended its approach in this regard and now sets assumptions at management's best estimates and recognises an explicit margin for demographic risks. For participating business in realistic basis companies, the assumptions about future demographic trends continue to represent 'best estimates'.

The assumption changes have been made to align the IFRS basis more closely with the requirements of Solvency II and move the basis closer to the Group's expectations of the requirements under the anticipated new IFRS on insurance contracts. As the Group manages its capital in accordance with Solvency II, the changes outlined above will mean the IFRS results will more closely reflect the way the business is managed and the Group's risk hedging strategies. In particular, the sensitivity of the Group's results to movements in interest rates is significantly reduced.

The amendments to the risk-free reference rate and the approach for adjusting for illiquidity increased insurance liabilities by £77 million. This has been more than offset by the impact of the change in approach for determining the demographic prudence margin, which reduced insurance liabilities by £122 million. After allowing for other second order impacts of the changes (including the revaluation of certain current liabilities using the swap rather than gilt curve), the overall impact of the above changes in the period is a benefit to IFRS profit before tax of £38 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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12. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS continued

12.3 PROCESS USED TO DETERMINE ASSUMPTIONS continued

During the period a number of other changes were made to assumptions to reflect changes in expected experience or to harmonise the approach across the enlarged Group. The impact of the more significant changes during the period was as follows:

	(Decrease)/ increase in insurance liabilities 30 Jun 2016 £m	Increase in insurance liabilities 30 Jun 2015 £m	(Decrease)/ increase in insurance liabilities 31 Dec 2015 £m
Change in longevity assumptions	**(15)**	10	(3)
Change in assumptions regarding policyholder take-up of options and guarantees	**16**	–	–
Change in persistency assumptions	**–**	–	1
Change in mortality assumptions	**–**	–	3
Change in expenses assumptions	**–**	–	5

13. BORROWINGS

	30 Jun 2016 £m	30 Jun 2015 £m	31 Dec 2015 £m
Carrying value			
Limited recourse bonds 2022 7.59%	**67**	74	66
Property reversions loan	**186**	173	194
£150 million term facility	**–**	148	148
£100 million facility agreement	**–**	99	99
Total policyholder borrowings	**253**	494	507
£200 million 7.25% unsecured subordinated loan	**163**	153	158
£300 million senior unsecured bond	**298**	298	298
£450 million revolving credit facility	**–**	442	443
£450 million amortising term loan	**–**	328	199
£428 million subordinated notes	**393**	393	393
£650 million unsecured revolving credit facility	**641**	–	–
Total shareholder borrowings	**1,495**	1,614	1,491
Total borrowings	**1,748**	2,108	1,998

In February 2016, the Group assessed that it no longer controlled UKCPT and consequently deconsolidated this group of subsidiaries effective from this date (see note 3.2.4). As a result the UKCPT £150 million and £100 million policyholder borrowings are no longer included within Group borrowings as at 30 June 2016.

In March 2016, the Group agreed an amendment of its £900 million 5 year unsecured bank facility into a £650 million unsecured revolving credit facility, maturing in June 2020. There are no mandatory amortisation or target amortisation payments associated with the facility but prepayments are permissible. The facility accrues interest at LIBOR plus 1.35% per annum, which would change if there were a change in the guarantor's credit rating. A utilisation fee of 0.40% per annum is payable in respect of the facility, which would reduce if the amount outstanding under the facility reduced to 67% or below. In June 2016, the £650 million facility was fully drawn.

In May 2016, the Group entered into a £220 million short-term debt facility as part of the financing of the planned acquisition of AXA Wealth's pensions and protection businesses (see note 3.1). The facility matures 12 months after the transaction closes and, subject to fees, can be extended by two further six month periods. The facility accrues interest at LIBOR plus 0.85% for the first six months from draw down. As at 30 June 2016, the facility had not been drawn down.

14. FINANCIAL INSTRUMENTS

14.1 FAIR VALUES

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

Financial assets

	30 Jun 2016		30 Jun 2015		31 Dec 2015	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets at fair value through profit or loss:						
Held for trading – derivatives	**3,881**	**3,881**	1,660	1,660	1,498	1,498
Designated upon initial recognition:						
Loans and receivables	**331**	**331**	273	273	268	268
Equities	**12,322**	**12,322**	12,830	12,830	12,351	12,351
Investment in associate	**458**	**458**	–	–	–	–
Investment in joint venture	**–**	**–**	138	138	149	149
Fixed and variable rate income securities	**34,028**	**34,028**	35,939	35,939	31,814	31,814
Collective investment schemes	**3,312**	**3,312**	3,703	3,703	3,826	3,826
Loans and receivables at amortised cost	**597**	**597**	190	190	309	309
	54,929	**54,929**	54,733	54,733	50,215	50,215
Less amounts classified as held for sale (note 3.2)	**–**	**–**	(177)	(177)	(149)	(149)
	54,929	**54,929**	54,556	54,556	50,066	50,066

Financial liabilities

	30 Jun 2016		30 Jun 2015		31 Dec 2015	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial liabilities at fair value through profit or loss:						
Held for trading – derivatives	**1,780**	**1,780**	1,700	1,700	1,360	1,360
Designated upon initial recognition:						
Borrowings	**186**	**186**	173	173	194	194
Net asset value attributable to unitholders	**6,499**	**6,499**	5,218	5,218	5,120	5,120
Investment contract liabilities	**7,867**	**7,867**	8,250	8,250	7,905	7,905
Financial liabilities measured at amortised cost:						
Borrowings	**1,562**	**1,629**	1,935	2,046	1,804	1,907
Deposits received from reinsurers	**414**	**414**	385	385	378	378
Obligations for repayment of collateral received[1]	**2,064**	**–**	818	–	725	–
	20,372	**18,375**	18,479	17,772	17,486	16,864

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

14. FINANCIAL INSTRUMENTS continued

14.2 FAIR VALUE HIERARCHY

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

Level 1 financial instruments

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

Level 2 financial instruments

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

Level 3 financial instruments

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

14.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2016

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	30	3,851	–	3,881
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and receivables	–	–	331	331
Equities	11,602	74	646	12,322
Investment in associate	458	–	–	458
Fixed and variable rate income securities	19,772	14,013	243	34,028
Collective investment schemes	2,727	499	86	3,312
	34,559	14,586	1,306	50,451
Total financial assets at fair value	34,589	18,437	1,306	54,332

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	38	1,742	–	1,780
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	186	186
Investment contract liabilities	–	7,867	–	7,867
Net asset value attributable to unitholders	6,499	–	–	6,499
	6,499	7,867	186	14,552
Total financial liabilities at fair value	6,537	9,609	186	16,332

At 30 June 2015

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	38	1,622	–	1,660
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and receivables	–	–	273	273
Equities	12,008	193	629	12,830
Investment in joint venture	–	–	138	138
Fixed and variable rate income securities	24,073	11,180	686	35,939
Collective investment schemes	2,844	756	103	3,703
	38,925	12,129	1,829	52,883
Less amounts classified as held for sale (note 3.2)	(168)	–	–	(168)
Total financial assets at fair value	38,795	13,751	1,829	54,375

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

14. FINANCIAL INSTRUMENTS continued

14.2 FAIR VALUE HIERARCHY continued

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	4	1,696	–	1,700
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	173	173
Investment contract liabilities	–	8,250	–	8,250
Net asset value attributable to unitholders	5,218	–	–	5,218
	5,218	8,250	173	13,641
Total financial liabilities at fair value	5,222	9,946	173	15,341

At 31 December 2015

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	14	1,484	–	1,498
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and receivables	–	–	268	268
Equities	11,734	11	606	12,351
Investment in joint venture	–	–	149	149
Fixed and variable rate income securities	20,346	11,138	330	31,814
Collective investment schemes	3,098	646	82	3,826
	35,178	11,795	1,435	48,408
Less amounts classified as held for sale (see note 3.2)	–	–	(149)	(149)
Total financial assets at fair value	35,192	13,279	1,286	49,757

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	33	1,327	–	1,360
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	194	194
Investment contract liabilities	–	7,905	–	5,120
Net asset value attributable to unitholders	5,120	–	–	7,905
	5,120	7,905	194	13,219
Total financial liabilities at fair value	5,153	9,232	194	14,579

14.2.3 Level 3 financial instrument sensitivities

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

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

Level 3 investments in fixed and variable income securities include a property investment structure with a value of £41 million (half year ended 30 June 2015: £41 million; year ended 31 December 2015: £36 million).

The investment is valued by taking the fair value of the equity holdings in the structure, using market data less a discount spread to reflect reduced liquidity. The fair value of the debt in the structure is valued using a calculation model that takes a comparable overseas bond issue and applies a credit spread to reflect reduced liquidity.

The valuation of the debt investment is sensitive to a change in the credit spread whereby an increase of 100bps in the credit spread would decrease the value by £1 million (half year ended 30 June 2015: £3 million; year ended 31 December 2015: £1 million) and a spread reduction of 100bps would increase the value by £1 million (half year ended 30 June 2015: £4 million; year ended 31 December 2015: £1 million). The valuation of the equity investment is sensitive to changes in the equity discount rate, whereby an increase of 5% in the discount spread would decrease the value by £2 million (half year ended 30 June 2015: £2 million; year ended 31 December 2015: £2 million) and a 5% reduction would increase the value by £1 million (half year ended 30 June 2015: £3 million; year ended 31 December 2015: £1 million).

Also included within fixed and variable rate securities are investments in local authority loans. These investments are valued using a calculation model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity. The credit spread is derived from a sample broker quote. The valuations are sensitive to movements in this spread, an increase of 25bps would decrease the value by £1 million (half year ended 30 June 2015: £1 million; year ended 31 December 2015: £1 million) and a decrease of 25bps would increase the value by £1 million (half year ended 30 June 2015: £1 million; year ended 31 December 2015: £1 million).

Included within loans and receivables are investments in equity release mortgages with a value of £331 million (30 June 2015: £273 million; 31 December 2015: £268 million). The loans are valued using a discounted cash flow model, the key inputs to which include demographic assumptions, economic assumptions (including house price index) and the use of a Black-Scholes model for valuation of the no-negative equity guarantee. The no-negative equity guarantee caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property. The significant sensitivities arise from movements in the yield curve, inflation rate and house prices.

An increase of 100bps in the yield curve would decrease the value by £30 million (half year ended 30 June 2015: £21 million; year ended 31 December 2015: £22 million) and a decrease of 100bps would increase the value by £35 million (half year ended 30 June 2015: £25 million; year ended 31 December 2015: £25 million). An increase of 1% in the inflation rate would increase the value by £3 million (half year ended 30 June 2015: £2 million; year ended 31 December 2015: £2 million) and a decrease of 1% would decrease the value by £4 million (half year ended 30 June 2015: £3 million; year ended 31 December 2015: £3 million).

An increase of 10% in house prices would increase the value by £4 million (half year ended 30 June 2015: £2 million; year ended 31 December 2015: £1 million) and a decrease of 10% would decrease the value by £2 million (half year ended 30 June 2015: £2 million; year ended 31 December 2015: £1 million).

Borrowings measured at fair value and categorised as Level 3 financial liabilities comprise the property reversion loans, 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 £5 million (half year ended 30 June 2015: £4 million; year ended 31 December 2015: £5 million) and a decrease of 1% would increase the value by £5 million (half year ended 30 June 2015: £4 million; year ended 31 December 2015: £5 million). An increase of 1% in the house price inflation rate would increase the value by £6 million (half year ended 30 June 2015: £5 million; year ended 31 December 2015: £6 million) and a decrease of 1% would decrease the value by £6 million (half year ended 30 June 2015: £5 million; year ended 31 December 2015: £6 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

14. FINANCIAL INSTRUMENTS continued

14.2 FAIR VALUE HIERARCHY continued

14.2.4 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2016

	From Level 1 to Level 2 £m	**From Level 2 to Level 1 £m**
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition:		
Fixed and variable rate income securities	**293**	**234**
Collective investment schemes	**6**	**–**

At 30 June 2015

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition:		
Fixed and variable rate income securities	73	330

At 31 December 2015

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition		
Fixed and variable rate income securities	173	210

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 with regard to market depth and bid-ask spreads on fixed and variable rate income securities and collective investment schemes has resulted in an overall net movement of financial assets from Level 1 to Level 2 in the period.

14.2.5 Movement in Level 3 financial instruments measured at fair value

30 June 2016

	At 1 January 2016 £m	Total gains/ (losses) in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2016 £m	Unrealised gains on assets held at end of period £m
Financial assets								
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and receivables	268	25	43	(5)	–	–	331	25
Equities	606	59	31	(51)	2	(1)	646	58
Investment in joint venture	149	–	–	(149)	–	–	–	–
Fixed and variable rate income securities	330	(2)	–	(97)	12	–	243	–
Collective investment schemes	82	1	2	1	–	–	86	1
	1,435	83	76	(301)	14	(1)	1,306	84
Less amounts classified as held for sale (see note 3.2.3)	(149)	–	–	149	–	–	–	–
Total financial assets	1,286	83	76	(152)	14	(1)	1,306	84

	At 1 January 2016 £m	Total losses in income statement £m	Purchases £m	Repay-ments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2016 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	194	4	–	(12)	–	–	186	4
Total financial liabilities	194	4	–	(12)	–	–	186	4

During the period, updates to the Group's observations, in particular with regard to bid-ask spreads of fixed and variable rate income securities, resulted in a net transfer from Levels 1 and 2 to Level 3.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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14. FINANCIAL INSTRUMENTS continued

14.2 FAIR VALUE HIERARCHY continued

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

30 June 2015

	At 1 January 2015 £m	Total (losses)/ gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2015 £m	Unrealised (losses)/ gains on assets held at end of period £m
Financial assets								
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and receivables	–	(25)	298	–	–	–	273	(25)
Equities	704	19	31	(125)	7	(7)	629	5
Investment in joint venture	133	5	–	–	–	–	138	5
Fixed and variable rate income securities	735	(38)	390	(356)	6	(51)	686	(41)
Collective investment schemes	81	10	27	(15)	–	–	103	9
Total financial assets	1,653	(29)	746	(496)	13	(58)	1,829	(47)

	At 1 January 2015 £m	Total (gains)/ losses in income statement £m	Purchases £m	Sales/ (repay-ments) £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2015 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	1	(1)	–	–	–	–	–	–
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	184	3	–	(14)	–	–	173	3
Total financial liabilities	185	2	–	(14)	–	–	173	3

31 December 2015

	At 1 January 2015 £m	Total (losses)/ gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2015 £m	Unrealised (losses)/ gains on assets held at end of period £m
Financial assets								
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and receivables	–	(15)	298	(15)	–	–	268	(12)
Equities	704	(26)	79	(152)	4	(3)	606	(9)
Investment in joint ventures	133	16	–	–	–	–	149	16
Fixed and variable rate income securities	735	(34)	378	(724)	–	(25)	330	(26)
Collective investment schemes	81	10	28	(37)	–	–	82	5
	1,653	(49)	783	(928)	4	(28)	1,435	(26)
Less amounts classified as held for sale (see note 3.2.3)	(133)	(16)	–	–	–	–	(149)	–
Total financial assets	1,520	(65)	783	(928)	4	(28)	1,286	(26)

	At 1 January 2015 £m	Total losses in income statement £m	Purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2015 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	1	–	–	–	–	(1)	–	–
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	184	37	–	(27)	–	–	194	37
Total financial liabilities	185	37	–	(27)	–	(1)	194	37

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

15. CASH FLOWS FROM OPERATING ACTIVITIES

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

	Half year ended 30 Jun 2016 £m	Half year ended 30 Jun 2015 £m	Year ended 31 Dec 2015 £m
Profit for the period before tax	**60**	48	152
Non-cash movements in profit for the period before tax			
Fair value losses/(gains) on:			
Investment property	**23**	(52)	(140)
Financial assets	**(3,497)**	744	1,125
Change in fair value of borrowings	**10**	7	48
Amortisation and impairment of intangible assets	**45**	52	163
Change in present value of future profits	**5**	4	6
Change in unallocated surplus	**32**	(40)	(84)
Share-based payment charge	**2**	2	4
Interest expense on borrowings	**62**	69	136
Net interest income on Group defined benefit pension scheme asset	**(10)**	(8)	(17)
Pension scheme administrative expenses	**1**	1	3
Other gains on pension scheme	**(3)**	–	–
Cash in subsidiary disposed of net of cash received	**(28)**	–	–
Decrease/(increase) in investment assets	**886**	(1,125)	2,468
Decrease/(increase) in reinsurance assets	**25**	207	(1,134)
Increase/(decrease) in insurance contract and investment contract liabilities	**2,688**	(1,916)	(3,487)
Increase/(decrease) in deposits received from reinsurers	**36**	(23)	(30)
Increase/(decrease) in obligation for repayment of collateral received	**1,339**	(136)	(229)
Net (increase)/decrease in working capital	**(75)**	615	440
Cash generated/(utilised) by operations	**1,601**	(1,551)	(576)

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 consolidated financial statements for the year ended 31 December 2015.

There were no transactions with related parties during the half year ended 30 June 2016 which have had a material effect on the results or financial position of the Group.

17. CONTINGENT LIABILITIES

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

18. EVENTS AFTER THE REPORTING PERIOD

On 24 August 2016, the Board declared an interim dividend per share of 26.7p for the half year ended 30 June 2016 (half year ended 30 June 2015: 26.7p). The cost of this dividend has not been recognised as a liability in the interim financial statements for the half year ended 30 June 2016 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 2016

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	**1,600**	**2,391**	**4,687**	**1,191**	**9,869**
Debt securities – gilts	**1,418**	**388**	**7,212**	**645**	**9,663**
Debt securities – bonds	**5,820**	**2,080**	**6,340**	**758**	**14,998**
Equity securities	**183**	**58**	**5,470**	**6,837**	**12,548**
Property investments	**135**	**75**	**702**	**309**	**1,221**
Other investments[4]	**759**	**297**	**2,143**	**119**	**3,318**
At 30 June 2016	**9,915**	**5,289**	**26,554**	**9,859**	**51,617**
Cash and cash equivalents in Group holding companies					**921**
Cash and financial assets in other Group companies					**309**
Financial assets held by the non-controlling interest in consolidated collective investment schemes					**6,519**
Total Group consolidated assets					**59,366**
Comprised of:					
Investment property					**596**
Financial assets					**54,929**
Cash and cash equivalents					**5,621**
Derivative liabilities					**(1,780)**
					59,366

1 Includes assets where shareholders of the life companies bear the investment risk.
2 Includes assets where policyholders bear most of the investment risk.
3 This information is presented on a look through basis to underlying funds where available.
4 Includes equity release mortgages of £331 million, policy loans of £11 million, other loans of £19 million, net derivative assets of £2,350 million and other investments of £607 million.

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES
Continued

31 December 2015

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	1,236	2,498	3,921	1,065	8,720
Debt securities – gilts	1,262	818	7,275	602	9,957
Debt securities – bonds	5,203	1,380	6,263	724	13,570
Equity securities	186	62	5,231	7,294	12,773
Property investments	140	74	821	336	1,371
Other investments[1]	266	(31)	767	(1)	1,001
At 31 December 2015	8,293	4,801	24,278	10,020	47,392
Cash and cash equivalents in Group holding companies					706
Cash and financial assets in other Group companies					328
Financial assets held by the non-controlling interest in the consolidated UKCPT					838
Financial assets held by the non-controlling interest in consolidated collective investment schemes					5,473
Total Group consolidated assets					54,737
Comprised of:					
Investment property					1,942
Financial assets					50,066
Cash and cash equivalents					3,940
Assets held for sale					149
Derivative liabilities					(1,360)
					54,737

1 Includes equity release mortgages of £268 million, policy loans of £11 million, other loans of £15 million, net derivative assets of £139 million and other investments of £568 million.

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

30 June 2016

Analysis by type of debt securities	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
Gilts	**1,418**	**388**	**7,212**	**645**	**9,663**
Other government and supranational[2]	**832**	**562**	**2,322**	**306**	**4,022**
Corporate – financial institutions	**2,061**	**517**	**1,942**	**173**	**4,693**
Corporate – other	**2,355**	**296**	**1,514**	**232**	**4,397**
Asset backed securities ('ABS')	**572**	**705**	**562**	**47**	**1,886**
At 30 June 2016	**7,238**	**2,468**	**13,552**	**1,403**	**24,661**

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

31 December 2015

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	1,262	818	7,275	602	9,957
Other government and supranational	713	673	2,058	88	3,532
Corporate – financial institutions	1,859	367	1,588	153	3,967
Corporate – other	2,079	164	2,121	441	4,805
Asset backed securities ('ABS')	552	176	496	42	1,266
At 31 December 2015	6,465	2,198	13,538	1,326	23,527

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

30 June 2016

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,607	495	7,580	660	10,342
Supranationals	348	157	466	19	990
USA	1	11	19	103	134
Germany	215	104	563	25	907
France	36	44	104	16	200
Netherlands	15	2	110	6	133
Italy	–	–	–	32	32
Spain	–	–	–	9	9
Other – non-Eurozone	28	128	662	76	894
Other – Eurozone	–	9	30	5	44
At 30 June 2016	**2,250**	**950**	**9,534**	**951**	**13,685**

31 December 2015

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,400	905	7,560	609	10,474
Supranationals	310	195	553	17	1,075
USA	1	12	15	24	52
Germany	211	232	593	14	1,050
France	31	50	64	4	149
Netherlands	–	–	1	1	2
Italy	–	–	–	5	5
Spain	–	–	–	3	3
Other – non-Eurozone	22	87	511	13	633
Other – Eurozone	–	10	36	–	46
At 31 December 2015	1,975	1,491	9,333	690	13,489

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES
Continued

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

30 June 2016

Analysis of financial institution corporate debt security holdings by country	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
UK	**879**	**77**	**654**	**79**	**1,689**
USA	**472**	**61**	**384**	**20**	**937**
Germany	**34**	**21**	**54**	**1**	**110**
France	**65**	**17**	**64**	**3**	**149**
Netherlands	**191**	**50**	**213**	**24**	**478**
Italy	**8**	**–**	**7**	**–**	**15**
Ireland	**2**	**–**	**–**	**–**	**2**
Spain	**1**	**–**	**13**	**–**	**14**
Other – non-Eurozone	**386**	**272**	**526**	**45**	**1,229**
Other – Eurozone	**23**	**19**	**27**	**1**	**70**
At 30 June 2016	**2,061**	**517**	**1,942**	**173**	**4,693**

31 December 2015

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	845	151	566	71	1,633
USA	449	39	298	16	802
Germany	16	18	86	3	123
France	58	–	43	3	104
Netherlands	189	52	238	30	509
Italy	7	–	7	–	14
Ireland	28	1	12	–	41
Spain	3	–	12	–	15
Other – non-Eurozone	208	94	272	29	603
Other – Eurozone	56	12	54	1	123
At 31 December 2015	1,859	367	1,588	153	3,967

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

30 June 2016

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,220	97	809	123	2,249
USA	338	104	186	29	657
Germany	180	43	141	18	382
France	193	22	122	15	352
Netherlands	43	6	12	4	65
Portugal	–	–	5	–	5
Italy	59	1	39	7	106
Ireland	4	–	1	5	10
Spain	49	–	23	5	77
Other – non-Eurozone	250	8	156	24	438
Other – Eurozone	19	15	20	2	56
At 30 June 2016	2,355	296	1,514	232	4,397

31 December 2015

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,073	76	1,607	363	3,119
USA	288	33	115	15	451
Germany	142	24	93	15	274
France	173	15	113	20	321
Netherlands	39	–	19	3	61
Italy	56	2	27	3	88
Ireland	1	–	2	2	5
Spain	45	–	24	2	71
Other – non-Eurozone	190	13	77	11	291
Other – Eurozone	72	1	44	7	124
At 31 December 2015	2,079	164	2,121	441	4,805

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

30 June 2016

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	515	458	477	44	1,494
USA	–	31	4	–	35
Germany	–	88	41	–	129
France	–	32	–	–	32
Netherlands	9	67	21	1	98
Ireland	27	1	12	–	40
Other – non-Eurozone	21	28	7	2	58
At 30 June 2016	572	705	562	47	1,886

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES
Continued

31 December 2015

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	499	172	399	41	1,111
USA	3	–	4	–	7
Germany	–	–	28	–	28
France	–	1	–	–	1
Netherlands	10	–	20	1	31
Italy	–	–	12	–	12
Spain	–	–	1	–	1
Other – non-Eurozone	40	–	10	–	50
Other – Eurozone	–	3	22	–	25
At 31 December 2015	552	176	496	42	1,266

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

30 June 2016

Credit rating analysis of debt portfolio	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
AAA	**843**	**998**	**1,564**	**180**	**3,585**
AA	**2,631**	**995**	**8,523**	**713**	**12,862**
A	**1,967**	**390**	**1,126**	**170**	**3,653**
BBB	**1,677**	**78**	**1,719**	**233**	**3,707**
BB	**84**	**3**	**177**	**24**	**288**
B and below	**–**	**1**	**250**	**5**	**256**
Non-rated	**36**	**3**	**193**	**78**	**310**
At 30 June 2016	**7,238**	**2,468**	**13,552**	**1,403**	**24,661**

31 December 2015

Credit rating analysis of debt portfolio	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
AAA	746	625	1,740	72	3,183
AA	2,336	1,272	8,443	487	12,538
A	1,618	189	902	84	2,793
BBB	1,635	92	1,751	179	3,657
BB	100	11	205	21	337
B and below	1	–	327	–	328
Non-rated	29	9	170	483	691
At 31 December 2015	6,465	2,198	13,538	1,326	23,527

ADDITIONAL INFORMATION

IN THIS SECTION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') was held on 11 May 2016 at 12.30pm (BST).

The voting results for our 2016 AGM, including proxy votes and votes withheld are available on our website at www.thephoenixgroup.com

SHAREHOLDER SERVICES

MANAGING YOUR SHAREHOLDING

Our registrar, Computershare, maintains the Company's register of members. Shareholders may request a hard copy of this Interim Report from our registrar and if you have any further queries in respect of your shareholding, please contact them directly using the contact details set out below.

REGISTRAR DETAILS

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

SHARE PRICE

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

GROUP FINANCIAL CALENDAR FOR 2016

Announcement of unaudited six months' Interim Results	25 August 2016

2016 INTERIM DIVIDEND

Ex-dividend date	8 September 2016
Record date	9 September 2016
Interim 2016 dividend payment date	3 October 2016

2016 ANNUAL RESULTS

Our financial results for the year ended 31 December 2016 will be announced on 20 March 2017.

FORWARD-LOOKING STATEMENTS

The 2016 Interim Report contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'will', '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, and the performance of financial markets generally.
- The policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and ultimate transition to the European Union's 'Solvency II' Directive on the Group's capital maintenance requirements.
- The political, legal and economic effects of the UK's vote to leave the European Union.
- The impact of inflation and deflation.
- Market competition.
- Changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates).
- The timing, impact and other uncertainties of future acquisitions or combinations within relevant industries.
- Risks associated with arrangements with third parties
- Inability of reinsurers to meet obligations or unavailability of reinsurance coverage.
- 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 within the 2016 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2016 Interim Report or any other forward-looking statements it may make or publish.

The 2016 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 2016 Interim Report is or should be construed as a profit forecast or estimate.

NOTES

Online resources

REDUCING OUR ENVIRONMENTAL IMPACT

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

Go online
www.thephoenixgroup.com

INVESTOR RELATIONS

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

Go online
www.thephoenixgroup.com/investor-relations

NEWS AND UPDATES

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

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

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