PHOENIX GROUP

SKILLED MANAGEMENT OF CLOSED FUNDS

Phoenix Group Holdings
Interim Report 2017

PHOENIX GROUP HOLDINGS
Interim Report 2017

for the half year ended 30 June 2017

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ABOUT US

Phoenix Group is the largest UK consolidator of closed life assurance funds, with assets under management of £75 billion, and more than six million policyholders.

OUR MARKET

There are over £300 billion of assets held in closed life funds in the UK (excluding Phoenix).

"PHOENIX HAS MADE AN IMPORTANT INVESTMENT IN ITS SPECIALIST PLATFORM TO MANAGE CLOSED LIFE FUNDS, WHICH ENABLES IT TO ACQUIRE CLOSED LIFE FUNDS MORE EFFECTIVELY."

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

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PHOENIX GROUP AT A GLANCE

Phoenix is the UK's largest specialist closed life assurance fund consolidator.

c.6.1m
Policyholders

£75bn
Assets under management

OUR VISION

To be the saver-friendly 'industry solution' for the safe, innovative and profitable management of closed life funds.

OUR MISSION

To improve returns for policyholders while delivering value for shareholders.

OUR STRATEGIC PRIORITIES

IMPROVE CUSTOMER OUTCOMES

Improving customer outcomes is central to our vision of being the saver-friendly 'industry solution' for closed life funds.

DRIVE VALUE

In order to drive value, the Group looks to undertake management actions which increase and accelerate cash flows or enhance value.

MANAGE CAPITAL

The effective management of our risks and the efficient allocation of capital against them is critical in allowing us to achieve our strategic and operational objectives.

£

ENGAGE PEOPLE

Our people underpin everything that we do. The Group specifically targets, recruits and develops top quality people to support the achievement of its strategic and operational objectives.

OUR SPECIALIST OPERATING MODEL

Underpinned by 'The Phoenix Way', which characterises an approach and infrastructure for the efficient and effective structuring, integration and management of closed life funds and the investments they hold.

Key performance indicators

£360m
Operating companies' cash generation[1]

£1.7bn
PGH Solvency II surplus (pro forma)

£215m
Operating profit[1]

166%
PGH Shareholder Capital Coverage Ratio[1] (pro forma)

11 Read more about PGH's pro forma Solvency II capital position

Other performance indicators

25.1p
Interim dividend per share

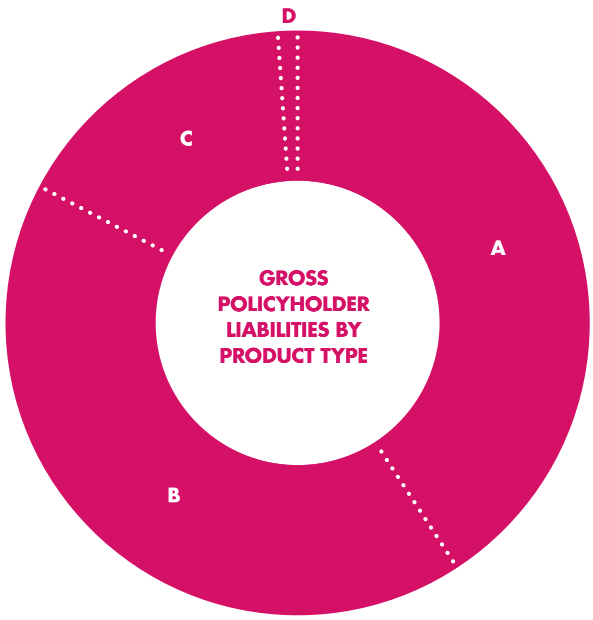
£(96)m
IFRS loss after tax

13 Read more about our IFRS results

Phoenix has a wide range of legacy products which are written across different funds.

The features of each policy influences whether it is the policyholders or the shareholders who are exposed to the risks and rewards of a policy.

A	With-profit	41%
B	Unit-linked	42%
C	Non-profit – annuities	16%
D	Non-profit – protection and other	1%



1 These are Alternative Performance Measures ('APM') which are measures of historical or future financial performance, financial position or cash flows, other than measures defined under the applicable reporting frameworks of IFRS and Solvency II. The Group uses a range of these metrics to provide a better understanding of the underlying performance of the Group. All APMs are defined in the relevant sections of the Interim Report.

Operating companies' cash generation – see page 09

Operating profit – see page 13

Shareholder Capital Coverage Ratio – see page 11

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

INTRODUCTION

Phoenix has made significant progress with the integration of the AXA Wealth and Abbey Life acquisitions. The Group is ahead of plan and material benefits have already been realised.

The Group's operating model provides a solid basis for the integration of acquisitions. A key part of the operating model is the use of our outsource partners to undertake policy administration. These relationships allow us to move additional policies to our outsourcers on the same contractual terms, delivering cost synergies and also allowing us to utilise the outsourcers' transformation expertise. This provides a platform which is scalable both upwards as well as downwards and which fully supports acquisitions. Phoenix always retains the financial management skillset that delivers value creation through our management actions.

Phoenix has also delivered strong financial performance in the first half of the year, generating £360 million of cash from Phoenix Life and strengthening the Group's capital position through the issue of subordinated bonds to replace existing senior debt. In line with the Group's previously stated expectations, the Board has declared an interim dividend for 2017 of 25.1p per share, a 5% increase to the 2016 final dividend. This increases the dividend per share to 50.2p on an annualised basis, which the Board believes is a sustainable level at which to rebase the dividend going forward.

"PHOENIX HAS MADE A STRONG START TO 2017 AND IS WELL ADVANCED IN THE INTEGRATION OF THE AXA AND ABBEY LIFE BUSINESSES."

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

FINANCIAL PERFORMANCE

DELIVERY OF FINANCIAL TARGETS

At the time of Phoenix's full year results in March, the Group set a cash generation target of £1.0 billion to £1.2 billion between 2017 and 2018, in line with the expected timeframe to integrate the recent acquisitions and incorporate Abbey Life within the Group's Solvency II Internal Model. In addition, a longer term cash generation target of £2.8 billion between 2016 to 2020 was announced. During the first half of the year, the Group generated a total of £360 million of cash and we remain on track to achieve both our cash generation targets.

Furthermore, we expect a further £4.5 billion of cash generation from 2021 onwards. This future illustrative cash generation does not assume any additional management actions from 2021 and is a clear demonstration of the long-term cash flow potential of the Group.

PHOENIX LIFE CAPITAL POSITION

The Phoenix Life companies hold capital management buffers in addition to the required Solvency Capital Requirement and any excess over these buffers ('Free Surplus') is available for distribution to the holding companies as cash. These capital management buffers provide the life companies with additional resilience in the event of market volatility. The Free Surplus as at 30 June 2017 was £0.8 billion compared to a pro forma surplus of £0.7 billion as at the start of 2017. The increase has been driven by changes to longevity assumptions and management actions undertaken during the first six months of the year, partly offset by the remittance of Free Surplus as cash to the Group's holding companies.

Key management actions have included a reduction in expenses charged to the life companies, together with further investment in illiquid assets within annuity portfolios.

SIMPLIFICATION OF GROUP STRUCTURE

The current holding company structure was formed at the time of the Group's restructuring in 2009, with Phoenix Group Holdings ('PGH') being a Cayman Island-registered company and tax resident 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 mid 2018. This will provide Phoenix with a streamlined and cost efficient internal governance structure as well as greater clarity for the Group's shareholders, debt investors and regulators.

Following discussions with the Prudential Regulation Authority ('PRA') with regards to the Group simplification process, upon a change of PGH's head office from Jersey to the UK, the PRA will treat PGH and not Phoenix Life Holdings Limited ('PLHL') as the ultimate EEA insurance holding company of the Group. Therefore the decision has been taken by the Board to move the head office and the tax residence of PGH to the UK during the course of 2017. This will allow the Group to accelerate some of the expected internal governance and operational benefits. The change in tax residence is not expected to impact Phoenix's investors,

AXA WEALTH INTEGRATION

The AXA Wealth acquisition comprised 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 integration is complex from an operational perspective as the Embassy and SunLife businesses are based in different locations and there are a large number of Transitional Service Agreements in operation.

Phoenix has already generated significant diversification benefits, with the mortality exposure of the SunLife business offsetting the Group's existing longevity exposure from its annuity liabilities. The acquired businesses have been incorporated within the Group's Solvency II Internal Model and the Group has delivered £282 million of cash from the acquisition since its completion in November 2016.

The Embassy business currently runs its policy administration in-house and a key part of our integration process is moving this across to a fully outsourced model. This will involve expanding our existing relationship with Diligenta, who will take on the current staff together with the Basingstoke office. In addition, we have an agreement with FNZ who will act as the specialist SIPP provider for the Embassy business.

Our initial expectations of cost synergies were approximately £10 million, but we now expect to deliver between £13 to £15 million of savings a year from the end of 2017. This is a result of working closely with our outsource partners to achieve greater alignment alongside accelerating the integration timescales. Integration costs incurred to 30 June 2017 amount to £14 million.

We have also restructured the SunLife business as a distribution company, with the mortality risk being underwritten by Phoenix Life Limited. This allows the ring-fenced management team based in Bristol to focus on their key skillsets of marketing, sales and the management of new customers. SunLife represents a positive adjunct for our business, providing options to our policyholder base and a complementary risk profile.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT
Continued

ABBEY LIFE INTEGRATION

The Abbey Life acquisition comprised unit-linked policies and annuities in payment, together with two small with-profit funds. Abbey Life was already run as a separate business with an existing outsource agreement in place with Capita. Therefore there is less complexity from the perspective of transitioning the business to Phoenix's operating platform.

The key focus so far has been on ensuring that governance and management are set up quickly and on enhancing oversight of the business and its outsource arrangements. This has been particularly important given the ongoing enforcement action relating to Abbey Life that is being undertaken by the Financial Conduct Authority ('FCA').

Phoenix continues to expect that cost synergies of £7 million will be achieved by the middle of 2018. Integration costs incurred to 30 June 2017 amount to £5 million.

The application to move Abbey Life onto the Group's Internal Model will be submitted during the fourth quarter of the year. As with AXA Wealth, transitional benefits will be accessed through reinsurance of the Abbey Life business into Phoenix Life Limited.

Following the reinsurance we will also be looking to extract further efficiencies from the annuity portfolio by extending the Matching Adjustment benefits to all qualifying annuity liabilities. The use of Matching Adjustment results in the use of a higher discount rate for those annuity liabilities, increasing Free Surplus within Phoenix Life.

other than UK stamp duty (currently levied at 0.5%) will be due on subsequent purchases of PGH depositary interests.

Going forward, the Group's Solvency II capital calculation will be reported at the level of PGH, rather than at the level of PLHL. The Group has taken steps during 2017 to strengthen its capital position at the PGH level by issuing subordinated debt to replace the Group's existing senior debt borrowings. This has involved the issuance of £450 million of Tier 3 bonds and a further US$500 million of Tier 2 bonds, the proceeds of which have been used to repay existing senior bank debt and redeem senior bonds that do not count as regulatory capital in the PGH Solvency II calculation.

GROUP CAPITAL POSITION

The Group's surplus under Solvency II, as calculated at the level of PGH, was £1.7 billion as at 30 June 2017, on a pro forma basis, compared to £1.1 billion as at 31 December 2016. The increase in the Solvency II surplus reflects the issuance of subordinated bonds during 2017 together with management actions completed, offset partly by financing costs and the expected payment of the interim dividend on 2 October 2017. The Shareholder Capital Coverage Ratio at PGH level has increased from 139% as at 31 December 2016 to 166% as at 30 June 2017. The Group capital position assumes a dynamic recalculation of Transitional Measures as at 30 June 2017.

OPERATING PROFIT

The Group achieved operating profits of £215 million in the first half of 2017 including £69 million from management actions, compared to £107 million in the first half of 2016, which included £14 million of management actions.

REGULATORY AND LEGISLATIVE CHANGES

We continue to work closely with the FCA on the ongoing investigation into the conduct of Abbey Life in the period before the business was acquired by Phoenix. This work will continue during 2017 but Phoenix Life has already applied its own governance and customer model to the Abbey Life business. Following the publication of the Legacy Review, Abbey Life received specific feedback and was informed of the actions that the FCA expected Abbey Life to take to address the issues. In addition, Abbey Life was referred to the FCA enforcement division to consider whether any of the issues identified in the thematic review warrant further intervention from the FCA. This investigation is ongoing.

Abbey Life were unable to complete their review of annuities sales in the same timeframe as other providers but this work has now been completed. We are working with the FCA to understand the outcomes of the review and the scope of any further activity.

With regards to contract-based workplace pensions, Phoenix Life's Independent Governance Committee has recently published its second annual report. Given the unique set of circumstances surrounding this group of customers Phoenix's life company boards have agreed that annual fees on workplace pension products will be reduced to 1% at the end of 2017. A £28 million provision has been recognised for the expected impact of the fee reduction on the Group's results.

Phoenix Group provides annuities for vesting policyholders and wrote a total of £274 million of annuities in the first half of 2017, compared to £254 million in the first half of 2016. £192 million of these are annuities with attractive guaranteed annuity rates ('GARs'). For policyholders looking to buy a non-guaranteed rate annuity, Phoenix has initiated a new programme which ensures customers have the opportunity to review the best deal for their annuity via a whole-of-market panel of third party annuity providers. This is particularly important for customers with lifestyle and medical conditions who are entitled to an enhanced annuity. This action ensures that customers fully understand the financial implications of buying an annuity as part of their retirement planning and is in line with the regulator's position on the market.

CUSTOMERS

Phoenix is currently investing in new online capabilities to connect digitally with as many of our customers as possible. Our vision is to offer customers access to information and services and create a platform that is scalable for future businesses we acquire.

We have already started testing the potential of our Digital Vision by offering online encashment for smaller pension pots. Currently, we see around 1,300 customers with non-GAR pension pots under £10,000 encash each month. The majority of these customers take advantage of pension freedoms to access smaller pots before their selected retirement date. We have seen an encouraging response from our customers, with current experience being that 38% of eligible customers with under £10,000 pots have transacted online. These constitute about 11% of our total retirement transactions. The process has recently been enhanced to allow eligible customers to complete this transaction fully online, without needing to complete any paperwork, and we expect this to increase usage. Along with being one of the early members of the Government-led Pensions Dashboard working group, Phoenix is driving forward with the Digital Vision and making significant investment to expand this digital offering in the future.

In addition to these digital enhancements, Phoenix Life continues to introduce initiatives to speed up processing and improve the customer experience. As well as allowing policyholders to encash small pension pots fully online, we have also improved the process for many of our small life insurance claims by, where possible, allowing bereaved claimants to complete the claims process over the telephone. We have also initiated a programme to contact customers with policies such as endowments well ahead of the maturity date to encourage earlier engagement and ensure customers receive the proceeds sooner.

Ensuring customers are repatriated with policies they may have become detached from as a result of lifestyle changes such as house moves, marriage and illness is a key part of our strategy. Lost policies are fairly typical for legacy books and we have undertaken considerable activity in the past to improve this issue. In the first half of 2017, we have focused on the repatriation of life insurance policies we suspect have been left unclaimed by a deceased's estate; in most cases because the beneficiaries were unaware the policy was in existence. Through our extensive tracing work, a number of policies have been paid out to the beneficiaries of the policy.

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 11.6 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% for 2016. We are pleased to note this is significantly below industry benchmarks. We also continue to monitor customer satisfaction, with the vast majority of our customers surveyed being satisfied with the service they receive. Servicing complaints represent only 0.35% of customer transactions.

OUTLOOK

With an operating model specifically designed for closed life fund consolidation, the Group is well placed to generate value from further acquisitions. The key advantage of the operating model is the rapid delivery of capital and cost synergies, ensuring Phoenix can deliver value from serial acquisitions as the closed life market in the UK consolidates. The progress already achieved in the first half of this year is evidence of the success of this strategy. Our strengthened capital position and the recent credit rating upgrade from Fitch Ratings in July 2017 gives us the financial flexibility to execute additional acquisitions in future.

The UK closed life market has potential assets of over £300 billion and this market remains our key focus for acquisitions. However, the bulk annuity market is a potential complementary source of annuity back books. The market has grown steadily in recent years and there is projected demand of £350 billion over the next ten years, as pension trustees look to de-risk current pensioner and deferred liabilities. Given the current capacity in the bulk annuity market, and recognising that Phoenix possesses both the skills and financial resources; the Group intends to compete selectively on accretive transactions to generate incremental value.

I would like to welcome two new Non-Executive Directors, Karen Green (from 1 July 2017) and Belinda Richards (from 1 October 2017), who bring extensive expertise in corporate finance and the insurance industry to the Group. I look forward to working with them as Phoenix seeks further opportunities to grow the business.

I would also like to thank my colleagues for their hard work during the first half of the year in delivering the Group's strategy of successful closed life fund consolidation.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

23 AUGUST 2017

BUSINESS REVIEW

INTRODUCTION

The ongoing integration of the acquired AXA and Abbey Life businesses has supported the Group's cash generation during the first half.

The Solvency II capital position (now reported at PGH) has also been strengthened through actions taken with regard to the Group's debt structure.

The Group has delivered £360 million of cash generation and remains on track to meet its cash generation targets. The cash generation in the period has benefited from actions taken with regards to the recent acquisitions, including the incorporation of the AXA businesses into the Group's Internal Model.

The Group has reviewed its actuarial assumptions to reflect the slow down of mortality improvements experienced in the industry which has had a favourable impact on the results.

The continued low interest rate environment has also triggered changes to the Group's expectations of persistency for products with valuable guarantees and this has adversely impacted the Group's results in the period. This has been more than offset by the positive impacts of the longevity and other actuarial assumption changes, which together with the delivery of management actions has resulted in an increase in the Group's operating profit.

The Group's hedging programme is optimised to the Solvency II capital position and this is reflected in the PGH pro forma surplus position of £1.7 billion, which includes the benefit of the restructuring of the Group's debt from senior to subordinated debt. However, the IFRS result for the period has been adversely impacted by negative investment variances from this hedging programme, including the impact of higher equity markets on put options held by the Group. When combined with one-off costs associated with debt financing and integration activities, these factors have generated an IFRS loss after tax for the year.

"THE GROUP HAS DELIVERED STRONG CASH GENERATION IN THE FIRST HALF OF THE YEAR AND WE REMAIN ON TRACK TO DELIVER OUR CASH FLOW TARGETS."

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

Cash generation

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

With cash generation of £360 million, the Group is on track to meet its cash generation target of between £1.0 billion and £1.2 billion during 2017 and 2018.

£360m
Operating companies' cash generation

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

HOLDING COMPANIES' CASH FLOWS

The Group's total cash flows comprise cash flows relating to shareholders and cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. For this reason, the following analysis of cash flows focuses on the holding companies' cash flows which relate only to shareholders. These cash flows are considered more representative of the cash that could potentially be distributed as dividends or used for the repayment of debt, the payment of debt interest, Group expenses and pension contributions (subject to the Group's liquidity policy, regulatory and other restrictions on the availability and transferability of capital). This cash flow analysis reflects the cash paid by the operating companies to the Group's holding companies, as well as the uses of those cash receipts.

	Half year ended 30 June 2017 £m	Half year ended 30 June 2016 £m
Cash and cash equivalents at 1 January	**570**	706
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**360**	147
Total cash receipts[1]	**360**	147
Uses of cash:		
Operating expenses	**(17)**	(15)
Pension scheme contributions	**(38)**	(8)
Debt interest	**(13)**	(8)
Total recurring outflows	**(68)**	(31)
Non-recurring outflows	**(20)**	(25)
Uses of cash before debt repayments and shareholder dividend	**(88)**	(56)
Debt repayments	**(503)**	(6)
Shareholder dividend	**(94)**	(60)
Total uses of cash	**(685)**	(122)
Debt issuances (net of fees)	**446**	–
Equity raise (net of fees)	**–**	190
Cash and cash equivalents at 30 June	**691**	921

1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £11 million (HY16: 44 million).

CASH RECEIPTS

Cash remitted by the operating companies was £360 million (HY16: £147 million). Cash receipts in the period included £165 million from the acquired AXA businesses and £74 million arising from the transfer of the Abbey Life Pension Scheme from the operating company to a holding company.

RECURRING CASH OUTFLOWS

Operating expenses of £17 million (HY16: £15 million) are in line with the prior period and reflect costs of the corporate office partially offset by income earned on holding company cash and investment balances.

Pension scheme contributions of £38 million (HY16: £8 million) have increased compared to the prior period, reflecting revised timing of contributions to the Pearl Group Staff Pension Scheme. Whereas previously an annual payment was made each September, contributions are now made to the Scheme on a monthly basis. There is no change in the overall quantum of agreed future funding. The HY17 figure includes £10 million settled in respect of the last quarter of 2016 and £20 million in respect of the first six months of 2017. £8 million of contributions to the PGL Staff Pension Scheme have also been made in the period.

Debt interest increased to £13 million (HY16: £8 million) reflecting the settlement of interest accrued on £178 million of senior bonds that were redeemed in May 2017. Interest costs on the £428 million subordinated loan notes, the £450 million Tier 3 loan notes and the remaining senior bonds will be settled in the second half.

NON-RECURRING CASH OUTFLOWS

Non-recurring cash outflows of £20 million include Group costs associated with integration activity and corporate related projects, partly offset by the receipt of proceeds from the disposal of internal holdings of the £428 million subordinated loan notes.

DEBT REPAYMENTS AND SHAREHOLDER DIVIDEND

External debt repayments of £503 million comprise £300 million part-settlement of the revolving credit facility and repayment of £178 million of the £300 million senior bonds which were redeemed at a premium of £25 million. The HY16 comparative of £6 million relates to the redemption of the Group's remaining Tier 1 bonds.

The shareholder dividend of £94 million comprises the payment of the 2016 final dividend.

DEBT RAISE (NET OF FEES)

The £446 million debt issuance comprises the proceeds of the Tier 3 bond issuances of £300 million and £150 million completed in January and May 2017 respectively, net of associated fees.

EQUITY RAISE (NET OF FEES)

The £190 million at HY16 was in relation to net proceeds from the equity placement in connection with the acquisition of the AXA businesses.

BUSINESS REVIEW
Continued

TARGET CASH FLOWS

The five-year cumulative target cash flow for 2016 to 2020 is £2.8 billion, of which £1.0 billion to £1.2 billion is expected to be achieved in 2017 and 2018.

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

	1 January 2016 to 31 December 2020 £bn
Base case five-year target	**2.8**
Following a 20% fall in equity markets	**2.8**
Following a 15% fall in property values	**2.8**
Following a 55bps interest rates rise[2]	**2.9**
Following a 80bps interest rates fall[2]	**2.6**
Following credit spread widening[3]	**2.6**
Following 6% decrease in annuitant mortality rates[4]	**2.5**
Following 10% increase in assurance mortality rates	**2.7**
Following a 10% change in lapse rates[5]	**2.7**

1 Assumes stress occurs on 30 June 2017.

2 Assumes recalculation of transitionals (subject to PRA approval).

3 Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.

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

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

EXPECTED CASH FLOWS AFTER 2020

The expected cash generation post 2020 is expected to be £4.5 billion. This illustrative cash generation does not assume any additional management actions after 2020.

Capital management

£1.7bn
PGH Solvency II surplus (pro forma)

166%
PGH Shareholder Capital Coverage Ratio (pro forma)

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

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

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

Since 1 January 2016, Solvency II capital assessment and the Group's regulatory supervision has been performed at the PLHL level as this is the highest EEA insurance holding company. A waiver that was in place permitting Group supervision to take place at the level of the ultimate parent, PGH, via other methods as opposed to full Group supervision, expired on 30 June 2017.

As part of the ongoing simplification of the Group structure, Phoenix intends to put in place a new UK-registered holding company for the Group in 2018. The new company will be the ultimate parent company and the highest EEA insurance Group holding company. When complete, the Solvency II capital assessment and Group supervision will only be performed at this level.

From 1 July 2017, and pending simplification of the Group structure, regulatory supervision and the Solvency II capital adequacy assessment is now performed at both the PGH and PLHL level. During this period, the Group's capital position is being managed at the PGH level only, being the more onerous calculation.

During 2017, the Group has taken steps to strengthen its capital position at the PGH level. This has involved the issuance of £450 million Tier 3 bonds in two tranches of £300 million and £150 million in January and May 2017 respectively, and a further US$500 million Tier 2 bonds issued in July 2017. The proceeds have been used to repay senior bank debt and redeem senior bonds that do not count as regulatory capital in the PGH Solvency II capital calculation.

PGH SOLVENCY II SURPLUS

A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's Solvency Capital Requirement ('SCR').

PGH's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds (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 in respect of insurance contract liabilities and intangible assets.

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

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess capital requirements. Following the 2016 acquisitions of the AXA and Abbey Life businesses, the Group obtained the PRA's approval to incorporate the acquired AXA businesses within the scope of the Group's Internal Model in March 2017. The capital assessment of the Abbey Life business remained on a Standard Formula basis as at 30 June 2017. Therefore, the Solvency II position of the Group at that date is based partially on the Group's Internal Model and partially on Standard Formula.

The PGH Solvency II surplus position at 30 June 2017 is set out in the table below. A pro forma Solvency II surplus position has also been presented to illustrate the impacts of the US$500 million Tier 2 bond issued in July 2017.

	Estimated position at 30 June 2017[4] £bn	**Impact of the Tier 2 bond £bn**	**Pro forma position at 30 June 2017[4] £bn**	Pro forma position at 31 December 2016[5] £bn
Own Funds[1]	**6.1**	**0.4**	**6.5**	6.0
SCR[2]	**(4.8)**	**–**	**(4.8)**	(4.9)
Surplus[3]	**1.3**	**0.4**	**1.7**	1.1

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

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

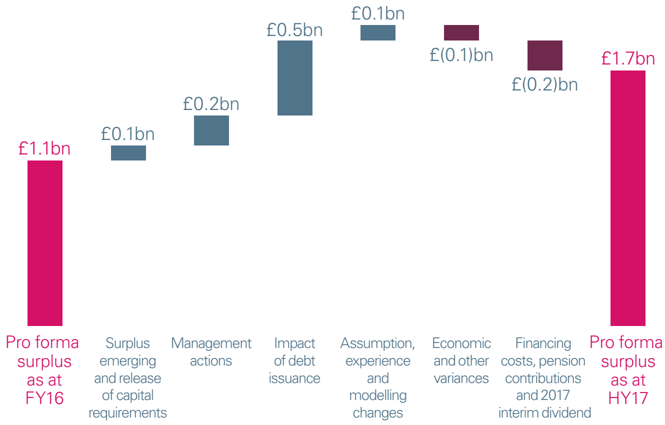
3 The pro forma surplus equates to a coverage ratio of 137% as at 30 June 2017 (31 December 2016:123%).

4 The estimated and pro forma Solvency II positions at 30 June 2017 include the adverse impact of an assumed recalculation of Transitional Measures on Technical Provisions ('TMTP').

5 The position at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA business within the Group's Internal Model.

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and the PGL Pension Scheme of £0.4 billion. In the calculation of the Group Solvency II surplus, the SCR of the with-profit funds and the PGL Pension Scheme is included, but the related Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and the PGL Pension Scheme, whilst not included in the Group Solvency II surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

CHANGE IN PGH SOLVENCY II SURPLUS



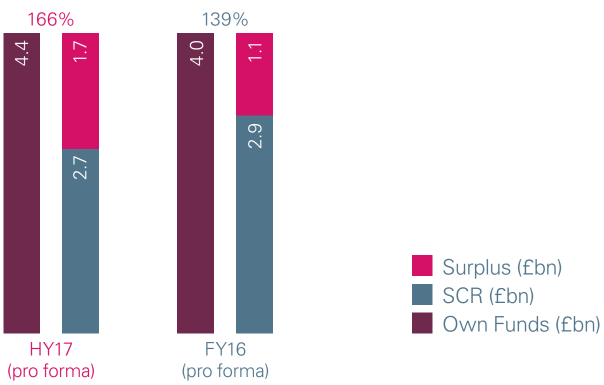
The estimated PGH Solvency II surplus has increased to £1.7 billion on a pro forma basis (FY16: £1.1 billion on a pro forma basis).

The increase includes surplus generation and expected run-off of capital requirements of £0.1 billion over the period. Management actions undertaken, including reductions in expenses and the impact of strategic asset allocation activities, increased the surplus by £0.2 billion.

The issuance of £150 million of Tier 3 bonds in May 2017 and US$500 million of Tier 2 bonds in July 2017 has increased the pro forma Solvency II surplus by a total of £0.5 billion. Assumption, experience and modelling changes of £0.1 billion reflect the net impact of changes to longevity assumptions and the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees, discussed further on page 13.

Economic and other variances of £(0.1) billion include the premium paid on partial redemption of the Group's £300 million senior bonds, the impact of the agreement to reduce annual charges on Workplace Pension products to 1% or lower and acquisition integration costs. Financing costs, pension contributions and the expected payment of the interim dividend on 2 October 2017 amount to £(0.2) billion.

SHAREHOLDER CAPITAL COVERAGE RATIO (PRO FORMA)



The Shareholder Capital Coverage Ratio demonstrates the extent to which shareholders' Own Funds cover the SCR, after adjusting to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme.

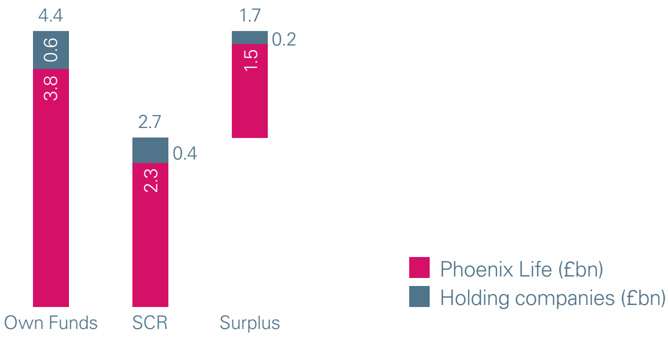
BUSINESS REVIEW
Continued

Unsupported with-profit funds and the PGL Pension Scheme consist of £2.5 billion of Own Funds and £2.1 billion of SCR. Of the £2.5 billion of Own Funds, £2.0 billion consists of estate within the unsupported with-profit funds and £0.5 billion of Own Funds within the PGL Pension Scheme.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the pro forma Solvency II Shareholder Capital Coverage Ratio is 166% as at 30 June 2017 (31 December 2016: 139%).

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



Own Funds within the holding companies of £0.6 billion principally comprises cash and other financial assets held in the holding companies.

Own Funds within Phoenix Life of £3.8 billion (FY16: £4.0 billion) comprise £0.8 billion (FY16: £1.1 billion) in the shareholders' funds, £1.9 billion (FY16: £1.8 billion) in the non-profit funds, £0.5 billion (FY16: £0.6 billion) in the supported with-profit funds and future shareholder transfers of £0.6 billion (FY16: £0.5 billion).

PHOENIX LIFE FREE SURPLUS

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 2017, the Phoenix Life Free Surplus is £0.8 billion (FY16: £0.7 billion pro forma to reflect inclusion of the acquired AXA business within the Group's Internal Model). The table below analyses the movement during the period:

	Half year ended 30 June 2017 £bn
Opening Free Surplus (pro forma)	**0.7**
Surplus generation and expected run-off of capital requirements	**0.1**
Management actions	**0.3**
Assumptions, experience and modelling changes	**0.1**
Free Surplus before cash remittances	**1.2**
Cash remittances to holding companies	**(0.4)**
Closing Free Surplus	**0.8**

The Phoenix Life Free Surplus excludes £49 million of financial assets held in Opal Re as at 30 June 2017 (FY16: £49 million).

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 pro forma PGH Solvency II surplus.

	Pro forma PGH Solvency II surplus £bn
Base: 30 June 2017	**1.7**
Following a 20% fall in equity markets	**1.7**
Following a 15% fall in property values	**1.7**
Following a 55bps interest rates rise[2]	**1.8**
Following a 80bps interest rates fall[2]	**1.6**
Following credit spread widening[3]	**1.5**
Following 6% decrease in annuitant mortality rates[4]	**1.4**
Following 10% increase in assurance mortality rates	**1.6**
Following a 10% change in lapse rates[5]	**1.6**

1 Assumes stress occurs on 30 June 2017.

2 Assumes recalculation of transitionals (subject to PRA approval).

3 Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.

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

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

IFRS operating results

£215m
Operating profit

£(96)m
IFRS loss after tax

Group operating profit has increased to £215 million (HY16: £107 million), primarily driven by the inclusion of the AXA and Abbey Life businesses acquired in the second half of 2016, together with the net positive impacts of actuarial assumption changes and £69 million of management actions undertaken in the period (HY16: £14 million).

The IFRS loss after tax attributable to owners is £(96) million (HY16: £3 million profit), and reflects adverse economic variances arising on hedging positions held by the life companies to protect the Group's regulatory capital position, together with the impact of non-operating items including acquisition integration costs of £18 million and a loss on the partial redemption of the Group's £300 million senior bonds of £25 million.

GROUP OPERATING PROFIT

The Group has generated an operating profit of £215 million (HY16: £107 million).

Group operating profit	Half year ended 30 June 2017 £m	Half year ended 30 June 2016 £m
Phoenix Life	**226**	108
Group costs	**(11)**	(1)
Total operating profit	**215**	107
Investment return variances and economic assumption changes on long-term business	**(56)**	(147)
Variance on owners' funds	**(77)**	130
Amortisation of acquired in-force business and other intangibles	**(50)**	(40)
Other non-operating items	**(82)**	(14)
(Loss)/profit before finance costs attributable to owners	**(50)**	36
Finance costs attributable to owners	**(51)**	(46)
(Loss)/profit before the tax attributable to owners:	**(101)**	(10)
Tax credit attributable to owners	**5**	13
(Loss)/profit for the period attributable to owners	**(96)**	3

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 June 2017 £m	Half year ended 30 June 2016 £m
With-profit	**39**	39
With-profit where internal capital support provided	**(76)**	(51)
Non-profit and unit-linked	**250**	65
One-off impact of IFRS methodology change	**-**	38
Long-term return on owners' funds	**2**	3
Management services	**11**	14
Phoenix Life operating profit before tax	**226**	108

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 (HY16: £39 million).

The with-profit funds where internal capital support has been provided generated an operating loss of £76 million (HY16: £51 million loss). The loss is principally driven by a further strengthening of actuarial assumptions to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees.

The non-profit and unit-linked funds operating profit increased to £250 million (HY16: £65 million), principally driven by the impact of updating actuarial assumptions, which had a net positive impact of £142 million on the result for the period (HY16: £15 million). This includes the positive impact of updating longevity base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2016 projection tables. The non-profit and unit-linked operating profit has also benefited from updates made to expense assumptions and the inclusion of the expected return of the acquired AXA and Abbey Life businesses.

The long-term return on owners' funds of £2 million (HY16: £3 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 £11 million (HY16: £14 million) comprises income from the life and holding companies in accordance with the respective management service

BUSINESS REVIEW
Continued

agreements less fees related to the outsourcing of services and other operating costs. The decrease compared to the prior period principally reflects the impacts of life company run-off and revisions to the expense agreements with the life companies.

GROUP COSTS

Group costs in the period were £11 million (HY16: £1 million). The increase in costs compared to the prior period principally reflects a lower return on the scheme surplus of the PGL Pension scheme following the buy-in transaction entered into with Phoenix Life Limited in the second half of 2016.

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

The net adverse investment return variances and economic assumption changes on long-term business of £56 million (HY16: £147 million adverse) primarily arise on hedging positions held by the life funds following equity market gains in the period. The Group's exposure to equity movements arising from future with-profit bonuses and future unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

The HY16 loss included the impact of a significant fall in yields during the period, which adversely impacted the life funds.

VARIANCE ON OWNERS' FUNDS

The adverse variance on owners' funds of £77 million (HY16: £130 million positive) is principally driven by interest rate swaption positions held in the life companies' shareholder funds. Such positions are held to hedge the impact of interest rate risk on the Group's regulatory capital position. With swap yields remaining relatively stable during the period, swap volatility has decreased and the option value associated with these contracts has fallen.

The HY16 gain principally reflected the impact of falling yields on interest rate hedging positions held by the life companies as at the end of June 2016.

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, and a further £0.2 billion was recognised following the acquisitions of the AXA and Abbey Life businesses in 2016. 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 £42 million (HY16: £33 million). Amortisation of other intangible assets totalled £8 million in the period (HY16: £7 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £82 million negative (HY16: £14 million negative) include the £25 million premium paid on partial redemption of the Group's £300 million senior bonds, the £28 million impact of the agreement to reduce annual charges on Workplace Pension products to 1% or lower, £18 million of acquisition integration costs, an £8 million increase in the provision of costs for claims relating to historic creditor insurance underwritten by a subsidiary of the Group, PA (GI) Limited, and a net £3 million of other costs, including corporate projects. The prior period result included 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, offset by the recognition of a £16 million cost of providing for PA (GI) Limited creditor insurance claims, £12 million of corporate project costs and a £3 million adverse impact of other one-off items.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Half year ended 30 June 2017 £m	Half year ended 30 June 2016 £m
Bank finance costs	**8**	12
Other finance costs	**43**	34
Finance costs attributable to owners	**51**	46

Finance costs have increased by £5 million, comprising a £4 million decrease in bank finance costs and a £9 million increase in other finance costs. The movements reflect the issuance of the Tier 3 bond during the first half of 2017 and subsequent repayment of bank debt, together with the impacts of the acceleration of deferred issue cost recognition on bank and senior debt repaid in the year.

TAX CREDIT ATTRIBUTABLE TO OWNERS

The Group's approach to the management of its tax affairs is set out in its Tax Strategy document which is available in the corporate responsibility section of the Group's website. The Group's tax affairs and tax controls are managed by an in-house tax team who report on them to the Board and the Audit Committee on a regular basis throughout the year. The Board believes that its Tax Strategy accords with the Group's approach to its wider Corporate Social Responsibility. In the first half of 2017, the new UK requirement for large UK businesses to publish their tax strategy came into effect.

Implicit in the Group's Tax Strategy and the management of its tax affairs is a desire for greater transparency and openness that will help the Group's stakeholders better understand the published tax numbers. In this way the Group aims to participate in a substantive manner with HMRC and other insurance industry stakeholders on consultative documents and tax law changes that potentially impact on the insurance sector.

All of the Group's insurance operations are based in the UK and are liable to tax in accordance with applicable UK legislation. The Group derives a de-minimis level of income from non-UK sources. Although Phoenix Group Holdings is a Jersey resident holding company, a decision has been taken by the Board to move its tax residence to the UK, planned during 2017. The Company is currently subject to a 0% tax rate in Jersey but because its primary source of income is its UK subsidiaries the tax residency of Phoenix Group Holdings has a negligible impact on the UK tax payable by the Group.

The Group tax credit for the period attributable to owners is £5 million (HY16: £13 million) based on a loss (after policyholder tax) of £(101) million (HY16: £(10) million). The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 19.25%) of £19 million primarily due to the impacts of current year tax losses not being recognised and the treatment of certain expenses as non-deductible. See note 6 to the IFRS interim financial statements for further analysis.

RISK MANAGEMENT

> **APPLICATION OF THE GROUP'S RISK MANAGEMENT FRAMEWORK HAS FACILITATED THE SAFE INTEGRATION OF THE AXA AND ABBEY LIFE BUSINESSES."**
>
> **WAYNE SNOW**
> GROUP CHIEF RISK OFFICER

INTRODUCTION

Our risk infrastructure has enabled the Group to integrate the acquired businesses as well as continuing to deliver key strategic initiatives amidst a volatile political and regulatory environment.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

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

Key to strategic objectives icons
Improve customer outcomes
Drive value
Manage capital
Engage people

Change in risk from last year	Trend
Risk improving	
No change	
Risk deteriorating	

RISK MANAGEMENT
Continued

Risk	Impact	Mitigation	Strategic objectives	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. Since the introduction of Solvency II and a swaps-based discount rate, the Group is more sensitive to movements in swap yields.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against adverse customer and shareholder outcomes from equity and interest rate movements. The Group also maintains cash buffers in its holding companies to reduce reliance on emerging cash flows. The Group's excess capital position continues to be closely monitored and managed, particularly in the low interest environment.		Despite the increased uncertainty on the terms of the UK's exit from the EU following the UK election result, equity markets have continued to rise. Yields on UK swap rates have also risen slightly over the first half of the year. Additional hedging carried out in 2016 remains in place to reduce the impact of interest rate volatility. The Group's financial strength has benefited from extension of the Internal Model to cover the AXA business and further Tier 2 and Tier 3 debt issuance in 2017. Recent currency volatility does not materially impact the Group.
Adverse changes in experience versus actuarial assumptions.	The Group has liabilities under annuities and other policies that are sensitive to future longevity, persistency, and mortality rates. For example, if our annuity policyholders live for longer than expected, then their benefits will be paid for longer. The amount of additional capital required to meet those additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group continues to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite.		The Group has noted the continuing trend of reductions in future mortality improvements and our assumptions amended to make an appropriate allowance for this. Policyholder persistency rates and the take-up of guarantees have been affected by the low interest rate environment. Assumptions have been strengthened where indicated by recent experience.
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. This risk is reflected in the higher expected return, or spread, over less risky assets. An increase in credit spreads on debt securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could adversely impact the value of the Group's assets. The Group is also exposed to trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements.	The Group regularly monitors its counterparty exposure and has specific limits relating to individual exposures, counterparty credit rating, sector and geography. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised and guaranteed.		Counterparty exposures are now managed and monitored at a consolidated level across the enlarged Group. There have been no significant developments in counterparty exposures over the first half of 2017.

Risk	Impact	Mitigation	Strategic objectives	Change from last year
Changes in the regulatory and legislative landscape.	The conduct-focused regulator has a greater focus on customer outcomes. This may continue to challenge existing approaches and/or may result in remediation exercises where Phoenix Life cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the implications of Brexit can also impact the Group's financial position.	The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory change and the impact on our operations and lobbies where appropriate. Although not material in the context of the overall Group, we are exploring a range of options to ensure we can continue to service our Irish policyholders as part of Brexit contingency planning.		Phoenix continues to roll out its customer model and risk management framework to the Abbey Life business. The FCA investigations remain ongoing. However, warranties and indemnities were agreed as part of the acquisition which mitigate against an adverse outcome. The risk of potentially adverse tax legislation being introduced in 2017 has reduced. Onshoring process continues (see page 5) and Group capital position was strengthened ahead of expiry of PGH waiver in respect of Group regulatory supervision at 30 June 2017. Capital position is now managed and reported at PGH level.
The Group fails to effectively integrate the acquired businesses.	The challenge of integrating two new businesses into the Group could introduce structural or operational inefficiencies that results in Phoenix failing to generate the expected outcomes for policyholders or value for shareholders.	The financial and operational risks of target businesses were assessed as part of the acquisition phase. Integration plans are developed and resourced with appropriately skilled staff to ensure that the target operating models are delivered in line with expectations.		Integration of both the acquired businesses is progressing, with realised and expected benefits higher than planned. As noted above, the Group's Internal Model has been extended to include the AXA business. A similar application for the Abbey Life business is on track to be made in Q4 2017.
Greater than anticipated redress cost relating to creditor insurance.	High Court ruling that PA (GI) Limited ('PAGI'), a Group company, retained liability in relation to creditor insurance originally underwritten by PAGI. Cost of redress for these complaints may be greater than provisions held, due to uncertainties with regard to the volumes of future complaints, the rates at which those complaints are upheld and the average redress value.	The Group has processes in place to review complaints received, and where appropriate, provide redress to the policyholder. The Group continues to monitor the level of complaints and emerging experience to ensure that the provisions remain appropriate. The Group is considering options in respect of seeking to recover incurred costs from third parties.		Claims handling capability established using industry specialists. FCA to launch two-year public awareness campaign in August ahead of 2019 deadline for mis-selling claims. Provision is maintained at £33m to reflect experience over the first half of 2017.

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.

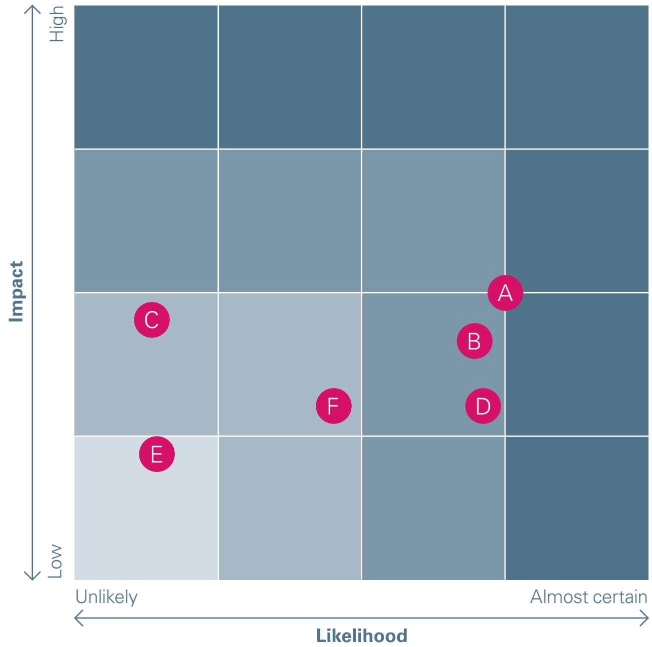
The residual risk is the remaining risk after controls and mitigating actions have been taken into account.

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
Political risk	Unexpected changes in the legislative environment driven by the political agenda following the UK's decision to leave the European Union. Impacts on financial markets of Brexit developments and potentially unexpected results in elections in key European countries.	Strategic
Market disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic

PRINCIPAL RISKS



RISK
- A Market volatility
- B Actuarial assumptions
- C Counterparty exposure
- D Regulatory and legislative changes
- E Acquisition integration
- F PAGI redress costs

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 2017, 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 2017 and for the financial half year to which the Interim Report relates, as required by DTR 4.2.7 of the Disclosure Guidance and Transparency Rules. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings and its consolidated subsidiaries for the remaining six months of the year; and
- the Interim Report includes, as required by DTR 4.2.8, a fair view of the information required on material transactions with related parties and any material changes in related party transactions described in the last annual report.

By order of the Board

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

ST HELIER, JERSEY
23 AUGUST 2017

PHOENIX GROUP HOLDINGS BOARD OF DIRECTORS

CHAIRMAN

Henry Staunton

EXECUTIVE DIRECTORS

Clive Bannister
James McConville

NON-EXECUTIVE DIRECTORS

Alastair Barbour
Ian Cormack
Karen Green
Wendy Mayall
John Pollock
Nicholas Shott
Kory Sorenson

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 report for the six months ended 30 June 2017 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 30 to 54. We have read the other information contained in the interim 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 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 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 report for the six months ended 30 June 2017 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
23 AUGUST 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

For the half year ended 30 June 2017

	Notes	Half year ended 30 June 2017 £m	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
Gross premiums written		**563**	449	999
Less: premiums ceded to reinsurers		**(76)**	(25)	(75)
Net premiums written		**487**	424	924
Fees		**63**	36	88
Net investment income		**2,394**	4,450	6,361
Total revenue, net of reinsurance payable		**2,944**	4,910	7,373
Gain on transfer of business		**–**	–	52
Other operating income		**1**	16	20
Net income		**2,945**	4,926	7,445
Policyholder claims		**(1,987)**	(1,783)	(3,726)
Less: reinsurance recoveries		**207**	218	456
Change in insurance contract liabilities		**981**	(2,727)	(1,970)
Change in reinsurers' share of insurance contract liabilities		**(156)**	36	(281)
Transfer (to)/from unallocated surplus		**(77)**	32	4
Net policyholder claims and benefits incurred		**(1,032)**	(4,224)	(5,517)
Change in investment contract liabilities		**(1,522)**	(277)	(1,194)
Acquisition costs		**(3)**	(3)	(9)
Change in present value of future profits		**7**	(5)	(11)
Amortisation of acquired in-force business		**(46)**	(38)	(76)
Amortisation of other intangibles		**(8)**	(7)	(14)
Administrative expenses		**(321)**	(225)	(506)
Net income attributable to unitholders		**(25)**	(25)	(66)
Total operating expenses		**(2,950)**	(4,804)	(7,393)
(Loss)/profit before finance costs and tax		**(5)**	122	52
Finance costs		**(64)**	(62)	(122)
(Loss)/profit for the period before tax		**(69)**	60	(70)
Tax charge attributable to policyholders' returns	6	**(32)**	(70)	(58)
Loss before the tax attributable to owners		**(101)**	(10)	(128)
Tax charge	6	**(27)**	(57)	(30)
Add: tax attributable to policyholders' returns	6	**32**	70	58
Tax credit attributable to owners	6	**5**	13	28
(Loss)/profit for the period attributable to owners		**(96)**	3	(100)
Attributable to:				
Owners of the parent		**(96)**	2	(101)
Non-controlling interests		**–**	1	1
		(96)	3	(100)
Earnings per share				
Basic (pence per share)	7	**(24.5)p**	0.1p*	(34.3)p*
Diluted (pence per share)	7	**(24.5)p**	0.1p*	(34.3)p*

*Restated following rights issue. See note 7 to the condensed consolidated interim financial statements.

CONDENSED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

For the half year ended 30 June 2017

	Notes	**Half year ended 30 June 2017 £m**	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
(Loss)/profit for the year		**(96)**	3	(100)
Other comprehensive income/(expense):				
Items that will not be reclassified to profit or loss:				
Owner-occupied property revaluation gains		**1**	–	–
Remeasurements of net defined benefit asset		**42**	239	219
Tax credit/(charge) relating to other comprehensive income items	6	**1**	(1)	(1)
Total other comprehensive income for the period		**44**	238	218
Total comprehensive (expense)/income for the period		**(52)**	241	118
Attributable to:				
Owners of the parent		**(52)**	240	117
Non-controlling interests		**–**	1	1
		(52)	241	118

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

For the half year ended 30 June 2017

	Notes	**Half year ended 30 June 2017 £m**	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
Operating profit				
Phoenix Life		**226**	108	357
Group costs		**(11)**	(1)	(6)
Total operating profit		**215**	107	351
Investment return variances and economic assumption changes on long-term business	5.2	**(56)**	(147)	(207)
Variance on owners' funds	5.3	**(77)**	130	(5)
Amortisation on acquired in-force business		**(42)**	(33)	(68)
Amortisation of other intangibles		**(8)**	(7)	(14)
Other non-operating items	4.2	**(82)**	(14)	(95)
(Loss)/profit before finance costs attributable to owners		**(50)**	36	(38)
Finance costs attributable to owners		**(51)**	(46)	(90)
Loss before tax attributable to owners	4.2	**(101)**	(10)	(128)
Tax credit attributable to owners		**5**	13	28
(Loss)/profit for the period attributable to owners		**(96)**	3	(100)

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	9	**–**	–	–
Share premium		**1,550**	991	1,643
Shares held by employee benefit trust		**(2)**	(3)	(7)
Foreign currency translation reserve		**96**	96	96
Owner-occupied property revaluation reserve		**5**	4	4
Retained earnings		**1,539**	1,718	1,597
Total equity attributable to owners of the parent		**3,188**	2,806	3,333
Liabilities				
Pension scheme liability	10	**658**	–	680
Insurance contract liabilities				
Liabilities under insurance contracts	11	**44,831**	42,642	45,807
Unallocated surplus		**956**	845	879
		45,787	43,487	46,686
Financial liabilities				
Investment contracts		**27,392**	7,867	27,332
Borrowings	12	**2,011**	1,748	2,036
Deposits received from reinsurers		**374**	414	392
Derivatives		**1,425**	1,780	1,567
Net asset value attributable to unitholders		**1,083**	6,499	1,040
Obligations for repayment of collateral received		**1,522**	2,064	1,623
	13	**33,807**	20,372	33,990
Provisions		**140**	41	109
Deferred tax		**366**	355	378
Reinsurance payables		**20**	18	21
Payables related to direct insurance contracts		**541**	367	484
Current tax		**25**	17	12
Accruals and deferred income		**160**	146	204
Other payables		**494**	717	102
Liabilities classified as held for sale	3.2	**–**	1,671	–
Total liabilities		**81,998**	67,191	82,666
Total equity and liabilities		**85,186**	69,997	85,999

	Notes	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
ASSETS				
Pension scheme asset	10	**280**	763	225
Intangible assets				
Goodwill		**57**	39	57
Acquired in-force business		**1,361**	1,227	1,407
Other intangibles		**211**	207	214
		1,629	1,473	1,678
Property, plant and equipment		**28**	19	25
Investment property		**650**	596	646
Financial assets				
Loans and receivables		**1,327**	928	1,232
Derivatives		**2,608**	3,881	3,003
Equities		**17,816**	12,322	17,759
Investment in associate		**573**	458	525
Fixed and variable rate income securities		**29,253**	34,028	29,290
Collective investment schemes		**17,964**	3,312	18,432
Reinsurers' share of investment contract liabilities		**6,606**	–	6,808
	13	**76,147**	54,929	77,049
Insurance assets				
Reinsurers' share of insurance contract liabilities		**3,588**	3,928	3,744
Reinsurance receivables		**33**	29	37
Insurance contract receivables		**8**	6	11
		3,629	3,963	3,792
Current tax		**36**	2	44
Prepayments and accrued income		**360**	369	361
Other receivables		**659**	663	513
Cash and cash equivalents		**1,768**	5,621	1,666
Assets classified as held for sale	3.2	**–**	1,599	–
Total assets		**85,186**	69,997	85,999

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS

For the half year ended 30 June 2017

	Notes	Half year ended 30 June 2017 £m	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
Cash flows from operating activities				
Cash generated/(utilised) by operations	14	**276**	1,601	(1,845)
Taxation paid		**(13)**	(4)	(52)
Net cash flows from operating activities		**263**	1,597	(1,897)
Cash flows from investing activities				
Acquisition of AXA subsidiaries, net of cash acquired		**–**	–	(343)
Acquisition of Abbey Life subsidiaries, net of cash acquired		**–**	–	(886)
Net cash flows from investing activities		**–**	–	(1,229)
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**1**	190	908
Ordinary share dividends paid	8	**(94)**	(60)	(126)
Coupon paid on Perpetual Reset Capital Securities		**–**	(1)	(1)
Cash settlement of Perpetual Reset Capital Securities		**–**	(6)	(6)
Fees associated with the amendment of existing bank facility		**–**	(3)	(3)
Repayment of policyholder borrowings		**(14)**	(13)	(38)
Repayment of shareholder borrowings		**(503)**	–	(882)
Proceeds from new shareholder borrowings, net of associated expenses		**446**	–	1,079
Proceeds from sale of internal holding in £428 million subordinated notes		**32**	–	–
Interest paid on policyholder borrowings		**–**	–	(6)
Interest paid on shareholder borrowings		**(29)**	(23)	(73)
Net cash flows from financing activities		**(161)**	84	852
Net increase/(decrease) in cash and cash equivalents		**102**	1,681	(2,274)
Cash and cash equivalents at the beginning of the period		**1,666**	3,940	3,940
Cash and cash equivalents at the end of the period		**1,768**	5,621	1,666

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the half year ended 30 June 2017

	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
At 1 January 2017	–	1,643	(7)	96	4	1,597	3,333
Loss for the period	–	–	–	–	–	(96)	(96)
Other comprehensive income for the period	–	–	–	–	1	43	44
Total comprehensive income for the period	–	–	–	–	1	(53)	(52)
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	1
Dividends paid on ordinary shares	–	(94)	–	–	–	–	(94)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	4	4
Shares distributed by employee benefit trust	–	–	9	–	–	(9)	–
Shares acquired by the employee benefit trust	–	–	(4)	–	–	–	(4)
At 30 June 2017	–	1,550	(2)	96	5	1,539	3,188

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the 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 £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 year ended 31 December 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 £m	Total £m
At 1 January 2016	–	861	(5)	96	4	1,478	2,434	570	3,004
(Loss)/Profit for the period	–	–	–		–	(101)	(101)	1	(100)
Other comprehensive income for the period	–	–	–	–	–	218	218	–	218
Total comprehensive income for the period	–	–	–	–	–	117	117	1	118
Issue of ordinary share capital, net of associated commissions and expenses	–	908	–	–	–	–	908	–	908
Dividends paid on ordinary shares	–	(126)	–	–	–	–	(126)	–	(126)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(1)	(1)
Credit to equity for equity-settled share based payments	–	–	–	–	–	7	7	–	7
Redemption of non-controlling interests	–	–	–	–	–	–	–	(6)	(6)
Elimination of non-controlling interest following loss of control	–	–	–	–	–	–	–	(564)	(564)
Shares distributed by employee benefit trust	–	–	5	–	–	(5)	–	–	–
Shares acquired by employee benefit trust	–	–	(7)	–	–	–	(7)	–	(7)
At 31 December 2016	–	1,643	(7)	96	4	1,597	3,333	–	3,333

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 2017 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 22 to 54 and were authorised by the Board of Directors for issue on 23 August 2017. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young LLP and their review report appears on page 21.

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 2016 consolidated financial statements except for the adoption of new standards and interpretations effective from 1 January 2017 as referred to below.

The interim financial statements do not include all the information and disclosures required in the 2016 consolidated financial statements, and should be read in conjunction with the Group's 2016 Annual Report and Accounts, which have been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2017:

– Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*

  The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017 where applicable.

– Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses*

  These amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. There is no impact on the Group of applying these amendments.

– Annual Improvements Cycle – 2014-2016: Amendments to IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

  The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. There is no impact on the Group of applying these amendments.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Since the 2016 consolidated financial statements were issued, the Group has completed a high level assessment of the impact of IFRS 15 *Revenue from Contracts with Customers* on the Group. IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to insurance contracts or financial instruments within the scope of IAS 39. Following the completion of the high level assessment, the Group anticipates that the application of IFRS 15 in 2018 will have limited impact on the measurement and presentation of amounts reported in the Group's financial statements. Further detailed assessments are being performed in 2017 which will include an assessment of the impact of the disclosure requirements of IFRS 15.

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* which is effective for periods beginning on or after 1 January 2021. The standard is expected to significantly change the way the Group measures and reports its insurance contracts. As a consequence, the Group has commenced a project to assess the impact of the standard on the Group and its subsidiaries and to produce a detailed implementation plan.

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

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the 2016 consolidated financial statements.

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

3.1 ACQUISITIONS AND DISPOSALS

3.1.1 ACQUISITION OF AXA BUSINESSES

On 1 November 2016, the Group acquired 100% of the issued share capital of AXA Wealth Limited ('AWL'), AXA Wealth Services Limited, AXA Sun Life Direct Limited, Winterthur Life UK Holdings Limited and AXA Trustee Services Limited from AXA UK plc for a total cash consideration of £373 million. The fair values of the identifiable assets acquired and liabilities assumed as at the date of the acquisition were disclosed in the notes to the 2016 consolidated financial statements.

3.1.2 ACQUISITION OF ABBEY LIFE

On 30 December 2016, the Group acquired 100% of the issued share capital of Abbey Life Assurance Company Limited ('Abbey Life'), Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Holdings No.4 Ltd (a wholly owned subsidiary of Deutsche Bank AG) for total cash consideration of £933 million. The fair values of the identifiable assets acquired and liabilities assumed as at the date of the acquisition were disclosed in the notes to the 2016 consolidated financial statements.

3.1.3 DISPOSAL OF PEARL BREAKFAST UNIT TRUST

On 25 February 2016, the Group completed the sale of its entire interest in an investment property joint venture which was held by 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. No gain or loss arose on this disposal.

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

3.1 ACQUISITIONS AND DISPOSALS continued

3.1.4 LOSS OF CONTROL OF INVESTMENT IN 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 holding in the issued share capital of UKCPT to 48.9%. The Group deems that it no longer controls its investment in UKCPT as it no longer has a unilateral power of veto in general meetings and also because the Group is restricted by the terms of the existing relationship agreement it has with UKCPT. 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.

As at 30 June 2017, the Group held 47.9% (half year ended 30 June 2016: 48.9%; year ended 31 December 2016: 47.9%) of the issued share capital of UKCPT.

3.2 ASSETS AND LIABILITIES OF OPERATIONS CLASSIFIED AS HELD FOR SALE

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 related to the Part VII transfer of a portfolio of annuity liabilities to ReAssure Limited.

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 were held in the Group's with-profit funds. On 30 December 2016, the reinsurance agreement was replaced by a formal scheme under Part VII of the Financial Services and Market Act 2000 to transfer the annuity liabilities to ReAssure Limited, a fellow subsidiary of ReAssure Life Limited. Assets (Reinsurer's share of insurance contract liabilitities) and liabilities (Liabilities under insurance contracts) classified as held for sale as at 30 June 2016 were extinguished at the time of transfer.

Net liabilities of £70 million were transferred for consideration of £18 million resulting in a gain on transfer of the business of £52 million. As the portfolio of annuities was previously held in unsupported with-profit funds, the gain was offset by an equivalent increase in policyholder liabilities and there was no net impact on the Group's result for the year ended 31 December 2016.

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. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment.

As such, Phoenix Life is considered to be the Group's only reportable segment, which includes the Group's operating insurance entities.

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 2017

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	487	–	487
Fees	63	–	63
Net investment income	2,414	(20)	2,394
Other operating income	1	–	1
Net income	2,965	(20)	2,945
Net policyholder claims and benefits incurred	(1,032)	–	(1,032)
Amortisation of acquired in-force business	(46)	–	(46)
Amortisation of other intangibles	(8)	–	(8)
	(54)	–	(54)
Other expenses	(1,802)	(62)	(1,864)
Total operating expenses	(2,888)	(62)	(2,950)
Profit/(loss) before finance costs and tax	77	(82)	(5)
Finance costs	(25)	(39)	(64)
Profit/(loss) before tax	52	(121)	(69)
Tax attributable to policyholders' returns	(32)	–	(32)
Segmental result before the tax attributable to owners	20	(121)	(101)

4. SEGMENTAL ANALYSIS continued

4.1 SEGMENTAL RESULT continued

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 acquired in-force business	(38)	–	(38)
Amortisation of other intangibles	(7)	–	(7)
	(45)	–	(45)
Other expenses	(517)	(18)	(535)
Total operating 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)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

4. SEGMENTAL ANALYSIS continued

4.1 SEGMENTAL RESULT continued

Year ended 31 December 2016

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	924	–	924
Fees	88	–	88
Net investment income	6,357	4	6,361
Gain on transfer of business	52	–	52
Other operating income	20	–	20
Net income	7,441	4	7,445
Net policyholder claims and benefits incurred	(5,517)	–	(5,517)
Amortisation of acquired in-force business	(76)	–	(76)
Amortisation of other intangibles	(14)	–	(14)
	(90)	–	(90)
Other expenses	(1,680)	(106)	(1,786)
Total operating expenses	(7,287)	(106)	(7,393)
Profit/(loss) before finance costs and tax	154	(102)	52
Finance costs	(56)	(66)	(122)
Profit/(loss) before tax	98	(168)	(70)
Tax attributable to policyholders' returns	(58)	–	(58)
Segmental result before the tax attributable to owners	40	(168)	(128)

4. SEGMENTAL ANALYSIS continued

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

Half year ended 30 June 2017

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

Other non-operating items include:

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

Half year ended 30 June 2016

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss)	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 other intangibles	(7)	–	(7)
Other non-operating items	(6)	(8)	(14)
Financing costs attributable to owners	(12)	(34)	(46)
Segment result before the tax attributable to owners	5	(15)	(10)

Other non-operating 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;
- 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

4. SEGMENTAL ANALYSIS continued

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

Year ended 31 December 2016

	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss)	357	(6)	351
Investment return variances and economic assumption changes on long-term business	(207)	–	(207)
Variance on owners' funds	11	(16)	(5)
Amortisation of acquired in-force business	(68)	–	(68)
Amortisation of other intangibles	(14)	–	(14)
Other non-operating items	(15)	(80)	(95)
Finance costs attributable to owners	(24)	(66)	(90)
Segment result before the tax attributable to owners	40	(168)	(128)

Other non-operating items include:

- a gain of £26 million on the implementation of a longevity swap reassurance contract on a portfolio of the Group's annuities;
- a gain of £14 million arising as a result of a premium adjustment on the 2015 reassurance arrangement with RGA International following completion of a data review;
- acquisition related costs of £31 million, comprising £12 million of transaction costs related to the acquisition of AXA Wealth's pensions and protection business and £19 million of transaction costs related to acquisition of Abbey Life;
- a provision for costs of £30 million associated with the integration and restructuring of the acquired AXA businesses;
- the costs of providing for claims and associated costs relating to creditor insurance underwritten prior to 2016 by a subsidiary of the Group, PA(GI) Limited ('PA(GI)'), of £33 million;
- recognition of costs of £10 million associated with the introduction of regulations that cap early exit charges for pension customers aged over 55 at 1%, which will come into force from 2017;
- costs of £6 million associated with the transfer of non-profit annuities from with-profit funds to non-profit matching adjustment funds;
- the costs of £4 million on PGL Pension Scheme buy-in;
- other corporate project costs of £19 million; and
- net other one-off items totalling a cost of £2 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 market yields on risk-free fixed interest assets at the start of each financial year.

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15 year duration plus 10bps at the start of the year. A risk premium of 350bps is added to the risk-free yield for equities (30 June 2016 and 31 December 2016: 350bps), 250bps for properties (30 June 2016 and 31 December 2016: 250bps), 150bps for other fixed interest assets (30 June 2016 and 31 December 2016: 150bps) and 50bps for gilts (30 June 2016 and 31 December 2016: 50bps).

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

	Half year ended 30 June 2017 %	Half year ended 30 June 2016 %	Year ended 31 Dec 2016 %
Equities	**5.0**	5.8	5.8
Properties	**4.0**	4.8	4.8
Gilts	**2.0**	2.8	2.8
Other fixed interest	**3.0**	3.8	3.8

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 June 2017 £m	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
Investment return variances and economic assumption changes on long-term business	**(56)**	(147)	(207)

Negative investment return variances and economic assumption changes on long-term business of £56 million in the first half of 2017 (half year ended 30 June 2016: negative £147 million; year ended 31 December 2016: negative £207 million) principally arose as a result of losses arising on equity hedging positions held by the life funds following equity market gains in the period. The Group's hedging programme remains optimised to the Solvency II regulatory capital position.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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5. INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES continued

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 June 2017 £m	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
Variances on owners' funds of subsidiary undertakings	**(77)**	130	(5)

The negative variance on owners' funds of subsidiary undertakings of £77 million (30 June 2016: positive £130 million; 31 December 2016: negative £5 million) is principally driven by interest rate swaption positions held in the life companies' shareholder funds to hedge the impact of interest rate risk on the Group's Solvency II regulatory capital position. With swap yields remaining relatively stable during the period, swap volatility has decreased and the option value associated with these contracts has fallen.

6. TAX CHARGE/(CREDIT)

6.1 CURRENT PERIOD TAX CHARGE/(CREDIT)

	Half year ended 30 Jun 2017 £m	Half year ended 30 Jun 2016 £m	Year ended 31 Dec 2016 £m
Current tax:			
UK corporation tax	**18**	63	46
Overseas tax	**12**	–	15
	30	63	61
Adjustment in respect of prior years	**1**	(5)	(8)
Total current tax charge	**31**	58	53
Deferred tax:			
Origination and reversal of temporary differences	**(5)**	(2)	(13)
Change in the rate of UK corporation tax	**1**	1	(10)
Total deferred tax credit	**(4)**	(1)	(23)
Total tax charge	**27**	57	30
Attributable to:			
– policyholders	**32**	70	58
– owners	**(5)**	(13)	(28)
Total tax charge	**27**	57	30

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 charge attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings was £32 million (half year ended 30 June 2016: £70 million; year ended 31 December 2016: £58 million).

6.2 TAX (CREDITED)/CHARGED TO OTHER COMPREHENSIVE INCOME

	Half year ended 30 Jun 2017 £m	Half year ended 30 Jun 2016 £m	Year ended 31 Dec 2016 £m
Current tax credit on share schemes	**–**	–	(1)
Deferred tax (credit)/charge on defined benefit schemes	**(1)**	1	3
Deferred tax credit on share schemes	**–**	–	(1)
	(1)	1	1

6. TAX CHARGE/(CREDIT) continued

6.3 RECONCILIATION OF TAX CHARGE

	Half year ended 30 Jun 2017 £m	Half year ended 30 Jun 2016 £m	Year ended 31 Dec 2016 £m
(Loss)/profit before tax	**(69)**	60	(70)
Policyholder tax charge	**(32)**	(70)	(58)
Loss before the tax attributable to owners	**(101)**	(10)	(128)
Tax charge at standard UK[1] rate of 19.25% (30 June 2016: 20%; 31 December 2016: 20%)	**(19)**	(2)	(26)
Non-taxable income, gains and losses[2]	**(3)**	(6)	(10)
Disallowable deductions[3]	**5**	7	24
Prior year tax credit for shareholders[4]	**(7)**	(2)	(6)
Movement on acquired in-force amortisation at less than 19.25% (30 June 2016: 20%; 31 December 2016: 20%)	**1**	–	2
Profits taxed at rates other than 19.25%[5] (30 June 2016: 20%; 31 December 2016: 20%)	**4**	(4)	–
Recognition of previously unrecognised deferred tax assets[6]	**–**	(7)	(5)
Deferred tax rate change[7]	**2**	1	(9)
Temporary differences not valued[8]	**10**	–	–
Other	**2**	–	2
Owners' tax credit	**(5)**	(13)	(28)
Policyholder tax charge	**32**	70	58
Total tax charge for the period	**27**	57	30

1 The Phoenix Life reportable 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.

2 Includes non-taxable dividends and gains and non-taxable pension scheme items.

3 Includes non-recurring disallowable deductions in relation to claims and other costs relating to creditor insurance underwritten by PA(GI) Limited, and a consolidation adjustment on the PGL Pension Scheme 'buy-in' agreement.

4 The prior year credit mainly relates to the reassessment of a deferred tax asset.

5 Mainly represents losses recognised at marginal rates (30 June 2016: £nil). The half year ended 30 June 2016 included a one-off tax rate difference on transitional adjustments of negative £3 million.

6. The half year ended 30 June 2016 includes initial recognition of £4 million deferred tax assets in Pearl Group Management Services Limited and £3 million in Phoenix Life Assurance Limited.

7 Represents the reduction in future tax rates on deferred tax assets.

8 Represents current year losses of £11 million carried forward and the use of brought forward unrecognised losses of negative £1 million.

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

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

	Half year ended 30 Jun 2017 £m	Half year ended 30 Jun 2016 £m	Year ended 31 Dec 2016 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	**31**	17	25
Excess expenses and deferred acquisition costs	**33**	–	33
Provisions and other temporary differences	**3**	–	3
Deferred tax assets not recognised on capital losses[9]	**15**	87	18

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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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.

Following completion of the rights issue in November 2016, the earnings per share calculations for all periods up to the date the rights issue shares were issued have been adjusted for the bonus element of the rights issue. The bonus factor used was 1.18.

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 June 2017 £m	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
(Loss)/profit for the period	**(96)**	3	(100)
Share of result attributable to non-controlling interests	**–**	(1)	(1)
(Loss)/profit attributable to owners of the parent	**(96)**	2	(101)

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

	Half year ended 30 June 2017 Number million	Half year ended 30 June 2016 Number million	Year ended 31 Dec 2016 Number million
Issued ordinary shares at beginning of the period (restated for bonus element of rights issue)	**393**	266	266
Effect of ordinary shares issued	**–**	4	30
Own shares held by employee benefit trust	**(1)**	(1)	(1)
Weighted average number of ordinary shares	**392**	269	295

Basic earnings per share is as follows:

	Half year ended 30 June 2017 pence	Half year ended 30 June 2016 pence	Year ended 31 Dec 2016 pence
Basic earnings per share (restated for bonus element of rights issue)	**(24.5)**	0.1	(34.3)

7.2 DILUTED EARNINGS PER SHARE

The result attributable to owners of the parent used in the calculation of diluted earnings per share is the same as that used in the basic earnings per share calculation in note 7.1 above. The diluted weighted average number of ordinary shares outstanding during the period is also the same as that used in the basic earnings per share calculation in note 7.1 above. As losses have an anti-dilutive effect, none of the share-based awards have a dilutive effect for the half year ended 30 June 2017 and for the year ended 31 December 2016. 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.

Diluted earnings per share is as follows:

	Half year ended 30 June 2017 pence	Half year ended 30 June 2016 pence	Year ended 31 Dec 2016 pence
Diluted earnings per share (restated for bonus element of rights issue)	**(24.5)**	0.1	(34.3)

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

8. DIVIDENDS ON ORDINARY SHARES

	Half year ended 30 June 2017 £m	Half year ended 30 June 2016 £m	Year ended 31 Dec 2016 £m
Dividends declared and paid	**94**	60	126

On 17 March 2017, the Board recommended a dividend of 23.9p per share in respect of the year ended 31 December 2016. The dividend was approved at the Company's Annual General Meeting, which was held on 11 May 2017. The dividend amounted to £94 million and was paid on 15 May 2017.

9. SHARE CAPITAL

	30 June 2017 £	30 June 2016 £	31 Dec 2016 £
Authorised:			
410 million (30 June 2016: 410 million; 31 December 2016: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750	31,750
Issued and fully paid:			
393.1 million (30 June 2016: 248.1 million; 31 December 2016: 392.8 million) ordinary shares of €0.0001 each	**33,137**	20,219	33,112

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

Movements in share capital during the period:

	Number	**£**
Shares in issue at 1 January 2017	**392,849,817**	**33,112**
Other ordinary shares issued in the period	**285,025**	**25**
Shares in issue at 30 June 2017	**393,134,842**	**33,137**

During the year, the Company issued 285,025 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 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
Ordinary shares issued under the rights issue	144,727,282	12,888
Other ordinary shares issued in the period	57,561	5
Shares in issue at 31 December 2016	392,849,817	33,112

On 1 June 2016, the Group completed an equity placing of 22,542,000 new ordinary shares in association with the proposed acquisition of the AXA businesses which raised gross proceeds of £194 million. The proceeds from the equity placing, net of deduction of commissions and expenses, were £190 million.

On 9 November 2016, the Group issued 144,727,282 shares following a rights issue undertaken in connection with the proposed acquisition of Abbey Life, where 7 rights issue shares were issued at 508p per share for every 12 existing Phoenix Group Holdings shares held. The rights issue raised gross proceeds of £735 million and proceeds, net of deduction of commission and expenses, were £717 million.

During 2016, the Company also issued 161,089 shares at a premium of £1 million in order to satisfy its obligations to employees under the Group's sharesave schemes.

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10. PENSION SCHEMES

The condensed statement of consolidated financial position incorporates the pension scheme assets and liabilities of the PGL Pension Scheme, the Pearl Group Staff Pension Scheme and the Abbey Life Staff Pension Scheme as at 30 June 2017.

In December 2016, the PGL Pension Scheme entered into a 'buy-in' agreement with PLL, which converted the existing longevity swap contract into a bulk annuity contract, covering both longevity and investment risk. The Scheme transferred £1,164 million of plan assets to a collateral account over which PLL has a fixed charge. The transfer of the assets constituted the payment of the premium to PLL and a simultaneous deposit of collateral by PLL, and was net of a £23 million prepayment by PLL to the scheme in respect of benefits up to 31 May 2017. The assets transferred to PLL are recognised in the relevant line within financial assets in the condensed statement of consolidated financial position. An adjustment of £6 million to the value of the premium was paid by PLL to the PGL Scheme in 2017. The economic effect of the 'buy-in' transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation.

The economic surplus of the PGL Pension Scheme amounted to £495 million (30 June 2016: £828 million; 31 December 2016: £465 million). The carrying value of insurance policies effected by the PGL Pension Scheme with the Group of £916 million (30 June 2016: £21 million; 31 December 2016: £919 million) are eliminated on consolidation and a deduction is made for the provision of tax on that part of the economic surplus available as a refund on a winding-up of the scheme and also in relation to the irrecoverable amount of the minimum funding requirement obligations. The resulting net pension scheme liability of the PGL scheme amounted to £568 million (30 June 2016: £536 million asset; 31 December 2016: £593 million liability).

The pension scheme asset of the Pearl Group Staff Pension Scheme amounted to £280 million (30 June 2016: £227 million; 31 December 2016: £225 million). Pension scheme assets are stated after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme and after adjusting for the irrecoverable amount of minimum funding requirement obligations.

The pension scheme liability of the Abbey Life Staff Pension Scheme amounted to £90 million (31 December 2016: £87 million). On 30 June 2017, the Abbey Life Staff Pension Scheme was transferred from Abbey Life to Pearl Life Holdings Limited ('PeLHL'), a fellow subsidiary. PeLHL assumed the Scheme covenant together with all obligations of the Scheme following implementation of the transfer. A revised schedule of contributions has been agreed, effective from 1 July 2017, for PeLHL to pay the following amounts:

- a lump sum of £25 million into the Scheme settled on 31 July 2017;
- fixed monthly contributions of £400,000 and additional monthly contributions of £83,552 in respect of administration expenses which will increase annually in line with the Retail Prices Index assumption; and
- annual payments of £4 million into the 2016 Charged Account by 31 July each year, with the first payment being made on 31 July 2017, and the last payment due by 31 July 2025.

11. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS

11.1 VALUATION OF PARTICIPATING INSURANCE AND INVESTMENT CONTRACTS

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

11.2 VALUATION OF NON-PARTICIPATING INSURANCE CONTRACTS

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

11.3 PROCESS USED TO DETERMINE ASSUMPTIONS

In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group uses a risk-free reference curve based on a swap curve with a liquidity premium of 10bps. For non-participating business only, the Group makes an explicit adjustment to the risk-free rate to adjust for illiquidity in respect of assets backing illiquid liabilities.

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

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

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

	(Decrease)/ increase in insurance liabilities 30 Jun 2017 £m	(Decrease)/ increase in insurance liabilities 30 Jun 2016 £m	(Decrease)/ increase in insurance liabilities 31 Dec 2016 £m
Change in longevity assumptions	**(126)**	(15)	(83)
Change in persistency assumptions	**75**	–	142
Change in mortality assumptions	**25**	–	1
Change in other demographic assumptions	**(2)**	16	(35)
Change in expenses assumptions	**(69)**	–	(8)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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12. BORROWINGS

	30 Jun 2017 £m	30 Jun 2016 £m	31 Dec 2016 £m
Carrying value			
Limited recourse bonds 2022 7.59%	**67**	67	65
Property reversions loan	**168**	186	183
Retrocession contracts	**65**	–	87
Total policyholder borrowings	**300**	253	335
£200 million 7.25% unsecured subordinated loan	**172**	163	167
£300 million senior unsecured bond	**121**	298	298
£428 million subordinated notes	**425**	393	393
£650 million unsecured revolving credit facility	**–**	641	–
£900 million unsecured revolving credit facility	**545**	–	843
£450 million Tier 3 subordinated notes	**448**	–	–
Total shareholder borrowings	**1,711**	1,495	1,701
Total borrowings	**2,011**	1,748	2,036

On 20 January 2017, PGH Capital plc ('PGHC') issued £300 million of Tier 3 subordinated notes due 2022 at a coupon of 4.125%. The proceeds from the bond issuance were used to repay £300 million of the £900 million unsecured revolving credit facility.

On 27 January 2017, £17 million of the £428 million subordinated notes held by Group companies were sold to third parties and a further £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million. As at 30 June 2017, internal holdings in the £428 million subordinated notes were £nil (31 December 2016: £32 million).

On 28 February 2017, PGH became an additional borrower under the £900 million unsecured revolving credit facility. On 20 March 2017, PGHC repaid its outstanding borrowings under the facility of £550 million, whilst PGH drew down an equivalent amount.

On 20 March 2017, PGH was substituted in place of PGHC as issuer of the £300 million senior bond, the £428 million subordinated notes and the £300 million Tier 3 subordinated notes ('Substitutions').

On 5 May 2017, PGH completed the purchase of £178 million of the £300 million senior bond at a premium of £25 million in excess of the principal amount. Accrued interest on the purchased bonds was settled on this date. At 30 June 2017, £122 million in aggregate of the principal amount of the bonds remained outstanding.

On 5 May 2017, PGH also completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017.

Changes to the Group's borrowings since 30 June 2017 have been disclosed in note 17.

13. FINANCIAL INSTRUMENTS

13.1 FAIR VALUES

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

Financial assets

	30 Jun 2017		30 Jun 2016		31 Dec 2016	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets at fair value through profit or loss:						
Held for trading – derivatives	**2,608**	**2,608**	3,881	3,881	3,003	3,003
Designated upon initial recognition:						
Loans and receivables	**932**	**932**	331	331	812	812
Equities	**17,816**	**17,816**	12,322	12,322	17,759	17,759
Investment in associate	**573**	**573**	458	458	525	525
Fixed and variable rate income securities	**29,253**	**29,253**	34,028	34,028	29,290	29,290
Collective investment schemes	**17,964**	**17,964**	3,312	3,312	18,432	18,432
Reinsurers' share of investment contract liabilities	**6,606**	**6,606**	–	–	6,808	6,808
Financial assets measured at amortised cost:						
Loans and receivables	**395**	**395**	597	597	420	420
	76,147	**76,147**	54,929	54,929	77,049	77,049

Financial liabilities

	30 Jun 2017		30 Jun 2016		31 Dec 2016	
	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	**1,425**	**1,425**	1,780	1,780	1,567	1,567
Designated upon initial recognition:						
Borrowings	**233**	**233**	186	186	270	270
Net asset value attributable to unitholders	**1,083**	**1,083**	6,499	6,499	1,040	1,040
Investment contract liabilities	**27,392**	**27,392**	7,867	7,867	27,332	27,332
Financial liabilities measured at amortised cost:						
Borrowings	**1,778**	**1,940**	1,562	1,629	1,766	1,879
Deposits received from reinsurers	**374**	**374**	414	414	392	392
Obligations for repayment of collateral received[1]	**1,522**	**–**	2,064	–	1,623	–
	33,807	**32,447**	20,372	18,375	33,990	32,480

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.

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13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY

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

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

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

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

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

13.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2017

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	52	2,511	45	2,608
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and receivables	–	–	932	932
Equities	17,175	10	631	17,816
Investment in associate	573	–	–	573
Fixed and variable rate income securities	18,731	10,315	207	29,253
Collective investment schemes	13,232	4,653	79	17,964
Reinsurers' share of investment contract liabilities	–	6,606	–	6,606
	49,711	21,584	1,849	73,144
Total financial assets at fair value	49,763	24,095	1,894	75,752

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Continued

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

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

At 31 December 2016

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	74	2,876	53	3,003
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and receivables	–	–	812	812
Equities	17,078	10	671	17,759
Investment in associate	525	–	–	525
Fixed and variable rate income securities	17,282	11,862	146	29,290
Collective investment schemes	13,548	4,795	89	18,432
Reinsurers' share of investment contract liabilities	–	6,808	–	6,808
	48,433	23,475	1,718	73,626
Total financial assets at fair value	48,507	26,351	1,771	76,629

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	25	1,270	272	1,567
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	270	270
Investment contract liabilities	–	27,332	–	27,332
Net asset value attributable to unitholders	1,040	–	–	1,040
	1,040	27,332	270	28,642
Total financial liabilities at fair value	1,065	28,602	542	30,209

13.2.3 Level 3 financial instrument sensitivities

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

Fixed and variable rate securities categorised as Level 3 investments, 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 equities and fixed and variable rate income securities include equity and debt holdings in a property investment structure with a value of £1 million (30 June 2016: £24 million; 31 December 2016: £22 million) and £43 million (30 June 2016: £17 million; 31 December 2016: £22 million) respectively.

During the period, the investment was restructured affecting the weighting between the Group's debt and equity holdings and prompting an amendment to the valuation methodology. The valuation is now performed for the structure as a whole on a discounted cash flow basis and allocated to the debt and equity components in order of priority. The valuation is sensitive to the discount rate applied. A decrease in the discount rate of 100bps would decrease the value by £7 million whilst an increase of 200bps would increase the value by £4 million. Due to the restructuring of the investment in the period, no comparative sensitivities have been disclosed.

Also included within fixed and variable rate income 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 (30 June 2016: £1 million; 31 December 2016: £1 million) and a decrease of 25bps would increase the value by £1 million (30 June 2016: £1 million; 31 December 2016: £nil).

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

13.2.3 Level 3 financial instrument sensitivities continued

Included within loans and receivables are investments in equity release mortgages with a value of £539 million (30 June 2016: £331 million; 31 December 2016: £433 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 £55 million (30 June 2016: £30 million; 31 December 2016: £42 million) and a decrease of 100bps would increase the value by £63 million (30 June 2016: £35 million; 31 December 2016: £47 million). An increase of 1% in the inflation rate would increase the value by £2 million (30 June 2016: £3 million; 31 December 2016: £2 million) and a decrease of 1% would decrease the value by £6 million (30 June 2016: £4 million; 31 December 2016: £5 million).

An increase of 10% in house prices would increase the value by £1 million (30 June 2016: £4 million; 31 December 2016: £1 million) and a decrease of 10% would decrease the value by £3 million (30 June 2016: £2 million; 31 December 2016: £3 million).

Also included within loans and receivables are investments in commercial real estate loans of £46 million entered into during the period. The loans are valued using a model which discounts the expected projected future cash flows at the risk-free rate plus a spread derived from a proxy basket of asset backed securitites. The valuation is sensitive to changes in the discount rate. An increase of 100bps in the discount rate would decrease the value by £2 million and a decrease of 100bps would increase the value by £3 million.

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £168 million (30 June 2016: £186 million; 31 December 2016: £183 million), measured using an internally developed model. The valuation is sensitive to key assumptions of the discount rate and the house price inflation rate. An increase in the discount rate of 1% would decrease the value by £5 million (30 June 2016: £5 million; 31 December 2016: £5 million) and a decrease of 1% would increase the value by £5 million (30 June 2016: £5 million; 31 December 2016: £5 million). An increase of 1% in the house price inflation rate would increase the value by £6 million (30 June 2016: £6 million; 31 December 2016: £6 million) and a decrease of 1% would decrease the value by £6 million (30 June 2016: £6 million; 31 December 2016: £6 million).

Included within financial assets and liabilities are related loans and receivables of £346 million (31 December 2016: £380 million), borrowings of £65 million (31 December 2016: £87 million) and derivative liabilities of £243 million (31 December 2016: £255 million) pertaining to a reinsurance and retrocession arrangement assumed following the acquisition of Abbey Life. These assets and liabilities are valued using a discounted cash flow model that includes valuation adjustments in respect of liquidity and credit risk. At 30 June 2017, the net of these balances was an asset of £38 million (31 December 2016: asset of £38 million). The valuation is sensitive to movements in the euro interest rate swap curve.

An increase of 100bps in the swap curve would decrease the aggregate value by £3 million (31 December 2016: £4 million) and a decrease of 100bps would increase the aggregate value by £3 million (31 December 2016: £4 million).

Also included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes assumed following the acquisition of Abbey Life with a fair value of £45 million (31 December 2016: £53 million) and £13 million (31 December 2016: £17 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the overnight interest swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the value by £8 million (31 December 2016: £10 million) and a decrease of 100bps would increase the value by £8 million (31 December 2016: £10 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £5 million (31 December 2016: £5 million) and a decrease of 1% would decrease the value by £5 million (31 December 2016: £5 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Continued

13. FINANCIAL INSTRUMENTS continued
13.2 FAIR VALUE HIERARCHY continued
13.2.4 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2017

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

At 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 31 December 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	155	153

Consistent with the prior period, 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 factors such as market depth and bid – ask spreads resulted in an overall net movement of financial assets from Level 2 to Level 1 in the period.

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

13.2.5 Movement in Level 3 financial instruments measured at fair value

30 June 2017

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

	At 1 January 2017 £m	Total (gains)/ 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 30 June 2017 £m	Unrealised (gains)/ losses on liabilities held at end period £m
Financial liabilities								
Derivatives	272	(12)	–	(4)	–	–	256	(12)
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	270	1	–	(38)	–	–	233	1
Total financial liabilities	542	(11)	–	(42)	–	–	489	(11)

During the period, updates to the Group's observations, in particular with regard to the nature and liquidity of underlying assets held within a collective investment scheme, 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

Continued

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

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

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	(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	Repayments £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

13. FINANCIAL INSTRUMENTS continued

13.2 FAIR VALUE HIERARCHY continued

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

31 December 2016

	At 1 January 2016 £m	Total gains/ (losses) in income statement £m	Effect of acquisitions/ purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2016 £m	Unrealised gains on assets held at end of period £m
Financial assets								
Derivatives	–	–	53	–	–	–	53	–
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and receivables	268	31	536	(23)	–	–	812	31
Equities	606	89	83	(106)	1	(2)	671	91
Investment in joint ventures	149	–	–	(149)	–	–	–	–
Fixed and variable rate income securities	330	(2)	20	(209)	31	(24)	146	7
Collective investment schemes	82	11	8	(12)	–	–	89	7
	1,435	129	647	(499)	32	(26)	1,718	136
Less amounts classified as held for sale	(149)	–	–	149	–	–	–	–
Total financial assets	1,286	129	700	(350)	32	(26)	1,771	136

	At 1 January 2016 £m	Net losses in income £m	Effect of acquisitions £m	Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2016 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	–	–	272	–	–	–	272	–
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	194	15	87	(26)	–	–	270	15
Total financial liabilities	194	15	359	(26)	–	–	542	15

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Continued

14. CASH FLOWS FROM OPERATING ACTIVITIES

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

	Half year ended 30 Jun 2017 £m	Half year ended 30 Jun 2016 £m	Year ended 31 Dec 2016 £m
(Loss)/profit for the period before tax	**(69)**	60	(70)
Non-cash movements in profit for the period before tax			
Fair value (gains)/losses on:			
Investment property	**(17)**	23	(26)
Financial assets	**(1,301)**	(3,497)	(4,548)
Change in fair value of borrowings	**7**	10	34
Amortisation of intangible assets	**54**	45	90
Change in present value of future profits	**(7)**	5	11
Change in unallocated surplus	**77**	32	(4)
Share-based payment charge	**4**	2	7
Interest expense on borrowings	**64**	62	122
Net interest expense/(income) on Group defined benefit pension scheme liability/asset	**6**	(10)	(21)
Other losses/(gains) on pension schemes	**2**	(2)	5
Decrease/(increase) in investment assets	**1,908**	886	(650)
Decrease in reinsurance assets	**361**	25	345
(Decrease)/increase in insurance contract and investment contract liabilities	**(859)**	2,688	2,489
(Decrease)/increase in deposits received from reinsurers	**(18)**	36	14
(Decrease)/increase in obligation for repayment of collateral received	**(101)**	1,339	898
Net decrease/(increase) in working capital	**205**	(95)	(486)
Other items:			
Contributions to defined benefit pension schemes	**(40)**	(8)	(55)
Cash generated/(utilised) by operations	**276**	1,601	(1,845)

15. RELATED PARTY TRANSACTIONS

The nature of the related party transactions of the Group has not changed from those referred to in the Group's consolidated financial statements for the year ended 31 December 2016.

There were no transactions with related parties during the half year ended 30 June 2017 which have had a material effect on the results or financial position of the Group.

16. CONTINGENT LIABILITIES

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

17. EVENTS AFTER THE REPORTING PERIOD

On 6 July 2017, PGH issued a US$500 million Tier 2 bonds due 2027 with a coupon of 5.375%. The proceeds from the bond issuance were used to repay £384 million of the unsecured revolving credit facility.

On 8 August 2017, PGH repaid the remaining principal outstanding of £166 million on the unsecured revolving credit facility.

On 23 August 2017, the Board declared an interim dividend per share of 25.1p for the half year ended 30 June 2017 (half year ended 30 June 2016: 26.7p). The cost of this dividend has not been recognised as a liability in the condensed consolidated interim financial statements for the half year ended 30 June 2017 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 2017

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	1,324	2,403	3,955	1,755	9,437
Debt securities – gilts	3,095	442	6,431	1,833	11,801
Debt securities – bonds	8,767	1,794	6,404	3,237	20,202
Equity securities	170	56	5,476	15,936	21,638
Property investments	140	71	858	595	1,664
Other investments[4]	953	126	1,671	7,349	10,099
At 30 June 2017	**14,449**	**4,892**	**24,795**	**30,705**	**74,841**
Cash and cash equivalents in Group holding companies					691
Cash and financial assets in other Group companies					443
Financial assets held by the non-controlling interest in consolidated collective investment schemes					1,165
Total Group consolidated assets					**77,140**
Comprised of:					
Investment property					650
Financial assets					76,147
Cash and cash equivalents					1,768
Derivative liabilities					(1,425)
					77,140

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 £539 million, other loans of £393 million, net derivative assets of £1,197 million, reinsurers' share of investment contracts of £6,606 million, and other investments of £1,364 million.

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES
Continued

31 December 2016

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	1,239	2,457	4,342	1,858	9,896
Debt securities – gilts	3,121	425	6,724	2,163	12,433
Debt securities – bonds	8,645	1,878	6,427	2,926	19,876
Equity securities	182	53	5,699	15,747	21,681
Property investments	144	74	802	619	1,639
Other investments[1]	833	188	1,849	7,449	10,319
At 31 December 2016	14,164	5,075	25,843	30,762	75,844
Cash and cash equivalents in Group holding companies					570
Cash and financial assets in other Group companies					449
Financial assets held by the non-controlling interest in consolidated collective investment schemes					931
Total Group consolidated assets					77,794
Comprised of:					
Investment property					646
Financial assets					77,049
Cash and cash equivalents					1,666
Derivative liabilities					(1,567)
					77,794

1 Includes equity release mortgages of £433 million, policy loans of £10 million, other loans of £308 million, net derivative assets of £1,468 million, reinsurers' share of investment contracts of £6,808 million, and other investments of £1,292 million.

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

30 June 2017

Analysis by type of debt securities	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
Gilts	**3,095**	**442**	**6,431**	**1,833**	**11,801**
Other government and supranational[2]	**1,167**	**409**	**2,215**	**628**	**4,419**
Corporate – financial institutions	**3,415**	**540**	**1,895**	**2,160**	**8,010**
Corporate – other	**3,400**	**156**	**1,664**	**345**	**5,565**
Asset backed securities ('ABS')	**785**	**689**	**630**	**104**	**2,208**
At 30 June 2017	**11,862**	**2,236**	**12,835**	**5,070**	**32,003**

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

31 December 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	3,121	425	6,724	2,163	12,433
Other government and supranational	1,195	474	2,103	328	4,100
Corporate – financial institutions	3,375	531	1,983	2,081	7,970
Corporate – other	3,219	184	1,700	401	5,504
Asset backed securities ('ABS')	856	689	641	116	2,302
At 31 December 2016	11,766	2,303	13,151	5,089	32,309

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

30 June 2017

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**3,373**	**504**	**6,696**	**1,842**	**12,415**
Supranationals	**640**	**100**	**373**	**26**	**1,139**
USA	**14**	**4**	**111**	**203**	**332**
Germany	**131**	**90**	**560**	**78**	**859**
France	**33**	**28**	**107**	**20**	**188**
Netherlands	**36**	**23**	**117**	**6**	**182**
Italy	**–**	**–**	**–**	**25**	**25**
Spain	**–**	**–**	**–**	**20**	**20**
Other – non-Eurozone	**17**	**90**	**636**	**235**	**978**
Other – Eurozone	**18**	**12**	**46**	**6**	**82**
At 30 June 2017	**4,262**	**851**	**8,646**	**2,461**	**16,220**

31 December 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	3,369	494	7,051	2,173	13,087
Supranationals	673	144	446	20	1,283
USA	16	5	25	107	153
Germany	143	103	526	45	817
France	40	25	90	11	166
Netherlands	16	12	112	6	146
Italy	–	–	–	26	26
Spain	–	–	–	10	10
Other – non-Eurozone	45	114	542	87	788
Other – Eurozone	14	2	35	6	57
At 31 December 2016	4,316	899	8,827	2,491	16,533

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 2017

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**1,576**	**76**	**775**	**765**	**3,192**
USA	**628**	**53**	**444**	**220**	**1,345**
Germany	**111**	**9**	**37**	**66**	**223**
France	**167**	**10**	**51**	**125**	**353**
Netherlands	**236**	**49**	**121**	**94**	**500**
Italy	**13**	**–**	**8**	**10**	**31**
Ireland	**32**	**–**	**–**	**24**	**56**
Spain	**1**	**–**	**15**	**12**	**28**
Other – non-Eurozone	**545**	**321**	**413**	**776**	**2,055**
Other – Eurozone	**106**	**22**	**31**	**68**	**227**
At 30 June 2017	**3,415**	**540**	**1,895**	**2,160**	**8,010**

31 December 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	1,607	65	736	924	3,332
USA	602	56	403	271	1,332
Germany	75	1	27	34	137
France	165	6	73	121	365
Netherlands	249	58	190	112	609
Italy	15	–	7	11	33
Ireland	30	–	–	29	59
Spain	1	–	15	10	26
Other – non-Eurozone	550	328	499	516	1,893
Other – Eurozone	81	17	33	53	184
At 31 December 2016	3,375	531	1,983	2,081	7,970

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

30 June 2017

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**1,560**	**50**	**822**	**168**	**2,600**
USA	**676**	**32**	**252**	**59**	**1,019**
Germany	**256**	**45**	**135**	**24**	**460**
France	**264**	**24**	**151**	**28**	**467**
Netherlands	**59**	**–**	**16**	**3**	**78**
Italy	**58**	**1**	**35**	**5**	**99**
Ireland	**3**	**–**	**1**	**6**	**10**
Spain	**47**	**–**	**25**	**2**	**74**
Other – non-Eurozone	**377**	**4**	**192**	**46**	**619**
Other – Eurozone	**100**	**–**	**35**	**4**	**139**
At 30 June 2017	**3,400**	**156**	**1,664**	**345**	**5,565**

31 December 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	1,517	74	830	211	2,632
USA	567	33	303	83	986
Germany	256	38	128	25	447
France	276	17	127	28	448
Netherlands	69	–	17	4	90
Italy	62	1	35	5	103
Ireland	4	–	1	6	11
Spain	48	–	23	5	76
Other – non-Eurozone	381	7	217	31	636
Other – Eurozone	39	14	19	3	75
At 31 December 2016	3,219	184	1,700	401	5,504

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES
Continued

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

30 June 2017

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	668	489	545	78	1,780
USA	4	4	4	20	32
Germany	–	62	5	–	67
France	–	43	–	–	43
Netherlands	9	75	33	1	118
Ireland	28	1	25	–	54
Other - non-Eurozone	76	1	8	3	88
Other – Eurozone	–	14	10	2	26
At 30 June 2017	**785**	**689**	**630**	**104**	**2,208**

31 December 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	729	488	551	108	1,876
USA	10	8	4	1	23
Germany	–	74	29	–	103
France	–	29	–	–	29
Netherlands	9	84	32	1	126
Ireland	30	1	18	–	49
Other – non-Eurozone	78	2	7	3	90
Other – Eurozone	–	3	–	3	6
At 31 December 2016	856	689	641	116	2,302

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

30 June 2017

Credit rating analysis of debt portfolio	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
AAA	**1,359**	**911**	**1,570**	**589**	**4,429**
AA	**4,517**	**892**	**7,507**	**1,322**	**14,238**
A	**3,504**	**328**	**1,317**	**631**	**5,780**
BBB	**2,190**	**33**	**1,712**	**291**	**4,226**
BB	**86**	**2**	**201**	**36**	**325**
B and below	**48**	**1**	**124**	**14**	**187**
Non-rated	**158**	**69**	**404**	**2,187**	**2,818**
At 30 June 2017	**11,862**	**2,236**	**12,835**	**5,070**	**32,003**

31 December 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	1,333	935	1,626	519	4,413
AA	4,578	943	7,962	1,415	14,898
A	3,358	287	1,312	550	5,507
BBB	2,274	54	1,624	360	4,312
BB	132	4	167	47	350
B and below	16	2	117	11	146
Non-rated	75	78	343	2,187	2,683
At 31 December 2016	11,766	2,303	13,151	5,089	32,309

ADDITIONAL CAPITAL DISCLOSURES

The Group's capital management framework is described in the Business Review section on pages 8 to 14 of the Interim Report.

As described in the Capital Management section of the Business Review, pending simplification of the Group's structure, Solvency II capital assessment and the Group's regulatory supervision is now performed at both the PGH and the PLHL level. The Group's capital position is being managed at the PGH level, being the more onerous calculation. This section provides additional analysis of PGH's Solvency II Own Funds, SCR and MCR.

PGH SOLVENCY II SURPLUS

PGH's pro forma Solvency II surplus at 30 June 2017 is £1.7 billion (31 December 2016: £1.1 billion). The rationale for the use of the pro forma metric is set out on page 10.

	30 June 2017 Pro forma £bn	31 December 2016 Pro forma £bn
Own Funds	**6.5**	6.0
SCR	**(4.8)**	(4.9)
Surplus	**1.7**	1.1

COMPOSITION OF OWN FUNDS

Own Funds items are classified into different Tiers based on the features of the specific items and the extent to which they possess the following characteristics:

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

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

	30 June 2017 Pro forma £bn	31 December 2016 Pro forma £bn
Tier 1	**4.9**	5.0
Tier 2	**1.0**	0.6
Tier 3	**0.6**	0.4
Total Own Funds	**6.5**	6.0

PGH's Tier 1 capital accounts for 75% (31 December 2016: 83%) of total Own Funds and comprises of ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

Tier 2 capital comprises of subordinated notes whose terms enable them to qualify as Tier 2 capital for regulatory reporting purposes. The 30 June 2017 position includes a pro forma adjustment for the £0.4 billion of Tier 2 bonds issued in July 2017.

Tier 3 items include the £0.3 billion Tier 3 bond issued in January 2017, the additional Tier 3 bond issuance in May 2017 of £0.2 billion (31 December 2016: £0.3 billion, pro forma for the January 2017 issuance) and the deferred tax asset of £0.1 billion (31 December 2016: £0.1 billion).

BREAKDOWN OF SCR

An analysis of the undiversified SCR of PGH (shareholder view) is presented below:

	30 June 2017 Pro forma %	31 December 2016 Pro forma %
Longevity	**31**	33
Credit	**15**	16
Persistency	**12**	13
Interest rates	**7**	9
Operational	**8**	7
Swap spreads	**4**	4
Other market risks	**14**	10
Other non-market risks	**9**	8
	100%	100%

MINIMUM CAPITAL REQUIREMENTS

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

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

PGH's MCR at 30 June 2017 is £1.2 billion (31 December 2016: £1.3 billion) which is the sum of the underlying insurance companies' MCRs.

PGH's Eligible Own Funds to cover MCR is £5.1 billion (31 December 2016: £5.2 billion) leaving an excess of Eligible Own Funds over MCR of £3.9 billion (31 December 2016: £4.0 billion), which translates to an MCR coverage ratio of 430% (31 December 2016: 409%).

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

– the eligible amounts of Tier 1 items should be at least 80% of the MCR; and

– the eligible amounts of Tier 2 items shall not exceed 20% of the MCR.

	30 June 2017 Pro forma £bn	31 December 2016 Pro forma £bn
Eligible Own Funds to cover MCR		
Tier 1	**4.9**	5.0
Tier 2	**0.2**	0.2
Total Eligible Own Funds to cover MCR	**5.1**	5.2

ADDITIONAL INFORMATION

IN THIS SECTION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') was held on 11 May 2017 at 12.30pm (BST).

The voting results for our 2017 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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Queensway House
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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 2017

Announcement of unaudited six months' Interim Results	24 August 2017

2017 INTERIM DIVIDEND

Ex-dividend date	7 September 2017
Record date	8 September 2017
Interim 2017 dividend payment date	2 October 2017

2017 ANNUAL RESULTS

Our financial results for the year ended 31 December 2017 will be announced on 15 March 2018.

FORWARD-LOOKING STATEMENTS

The 2017 Interim Report contains, and the Group may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'will', 'may' 'should', 'expects', 'plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that we have estimated. Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to:

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

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within the 2017 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2017 Interim Report or any other forward-looking statements it may make or publish.

The 2017 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 2017 Interim Report is or should be construed as a profit forecast or estimate.

ONLINE RESOURCES

REDUCING OUR ENVIRONMENTAL IMPACT

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

Go online
www.thephoenixgroup.com

INVESTOR RELATIONS

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

Go online
www.thephoenixgroup.com/investor-relations

NEWS AND UPDATES

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

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

NOTES

PAPER INFORMATION

Printed by Park Communications on FSC® certified paper. Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001. 100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled. This document is printed on Edixion Offset, a paper containing 100% Environmental Chlorine Free (ECF) virgin fibre sourced from well managed, responsible, FSC® certified forests.

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