PHOENIX GROUP

PHOENIX GROUP HOLDINGS

INTERIM REPORT FOR THE HALF YEAR ENDED 30 JUNE 2015

PHOENIX IS THE UK'S LARGEST SPECIALIST CLOSED LIFE AND PENSION FUND CONSOLIDATOR, LOOKING AFTER 5 MILLION POLICYHOLDERS.

WE MANAGE CLOSED LIFE FUNDS EFFICIENTLY AND SECURELY, PROTECTING OUR CUSTOMERS' INTERESTS WHILE CREATING VALUE FOR OUR SHAREHOLDERS.

WE HAVE A WIDE RANGE OF PRODUCTS AND AN OPERATING MODEL SPECIFICALLY DESIGNED FOR CLOSED FUND MANAGEMENT.

THIS OPERATING MODEL AND THE EXPERTISE OF OUR EMPLOYEES PROVIDE THE PLATFORM AND SKILLS TO SUCCEED IN OUR MARKET.

2015 KEY PERFORMANCE INDICATORS

£110m
OPERATING COMPANIES' CASH GENERATION

£135m
GROUP IFRS OPERATING PROFIT

£2,575m
GROUP MCEV

£1.6bn
IGD SURPLUS (ESTIMATED)

39.2%
FINANCIAL LEVERAGE

£0.7bn
PLHL ICA SURPLUS (ESTIMATED)

26.7p
DIVIDEND PER SHARE

CONTENTS

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

"

THE RECENT ACHIEVEMENT OF AN INVESTMENT GRADE CREDIT RATING IS A TESTAMENT TO THE FINANCIAL STRENGTH OF PHOENIX GROUP.

INTRODUCTION

We have seen some significant regulatory and legislative changes impacting both Phoenix Group and the wider UK life insurance industry during the first half of the year. The introduction of new pension freedoms from 6 April 2015 has provided greater flexibility for our customers in their retirement planning but has also increased the complexity of their decision-making process. The new Solvency II capital regime has continued to develop and will be effective from 1 January 2016, the culmination of a long period of preparation over the last five years.

Phoenix Group has undertaken significant work during the first half to prepare for these developments. In co-operation with our outsource partners, we increased the operational capacity and skill levels of colleagues in preparation for the new pension freedoms as well as agreeing a wider partnership agreement with Just Retirement to provide customers with a range of product options. We have also successfully progressed with our preparation for Solvency II, submitting our Internal Model Application to the Prudential Regulatory Authority ('PRA') in June 2015.

The progress we have made over the past years in reducing leverage and simplifying the Group's structure has culminated in Fitch Ratings assigning the Group an investment grade credit rating earlier this month. This marks the achievement of an ambition set out in 2014 and reflects the Group's strong capital position, cash flows and track record. The achievement of an investment grade credit rating strengthens our position as the UK's largest specialist closed life fund consolidator and the Group will continue to develop its relationship with the debt capital markets as it seeks to deliver its strategy of closed life fund consolidation.

£110m

HY 2014: £332m

OPERATING COMPANIES' CASH GENERATION

We have taken further actions with regard to our debt structure, with the completion of the exchange of 99% of the Group's Tier 1 notes in January 2015 and the further repayment of £60 million of bank debt in the first six months of the year. We have also undertaken a simplification of the Group's structure following the refinancing of our two bank silos into a single facility that was completed in 2014. These actions have been important in providing a more appropriate debt and corporate structure in readiness for Solvency II.

The Board has declared an interim dividend for the first six months of 2015 of 26.7p per share which is scheduled to be paid on 1 October 2015 and is in line with the 2014 interim and final dividends. Given the long-term run-off nature of the Group's business, the Board believes it is prudent to maintain a stable, sustainable dividend while the Group builds its financial flexibility to execute its growth strategy and meet the external challenges.

FINANCIAL PERFORMANCE

DELIVERY OF FINANCIAL TARGETS

The Group set itself targets at the time of our Annual Results announcement in March, against which I am pleased to be able to report significant progress.

2015 is a transitional year to the new Solvency II capital regime and our cash generation targets incorporate assumptions about how the final Solvency II regulations are likely to be implemented. Against a full year cash generation target of £200 million to £250 million, £110 million was delivered in the first half of the year, taking the Group half way towards meeting the full year target. We have now achieved £1.1 billion of our longer term cash generation target of £2.8 billion from 2014 to 2019 and we remain on track to achieve both our 2015 and longer term cash generation targets. In addition, we anticipate a further £3.6 billion of cash generation from 2020 onwards, a clear demonstration of the long term cash flow potential of the Group.

Group MCEV was £2,575 million as at 30 June 2015, compared to £2,647 million as at the end of December 2014. The decrease since year end primarily reflects the payment of the 2014 final dividend and market movements during the period, partly offset by the achievement of a total of £84 million of management actions.

In March we announced an increased cumulative target of £400 million incremental embedded value from management actions between 2014 and 2016. The Group generated £84 million of incremental MCEV during the first half of 2015 and, having now achieved £345 million from management actions to date, remains on track to meet this increased target.

GROUP CAPITAL POSITION AND SOLVENCY II

Our capital position remains robust with IGD surplus and headroom over the Group's regulatory capital policy estimated at £1.6 billion and £0.8 billion respectively at 30 June 2015, compared to IGD surplus of £1.2 billion and headroom of £0.5 billion at the end of December 2014. The increase is primarily due to the simplification of the Group's corporate structure, which has included Phoenix Life Holdings Limited ('PLHL') now recognising 100% of the capital resources and capital requirements of Impala Holdings Limited and its subsidiaries, increasing the IGD surplus by £0.3 billion.

At 30 June 2015, our PLHL ICA surplus was estimated to be £0.7 billion, with headroom over the £150 million capital policy of £0.6 billion. This is in line with the PLHL ICA surplus of £0.7 billion and headroom of £0.6 billion at 31 December 2014. The simplification in Group structure has not impacted the PLHL ICA surplus.

The Group's activities in relation to Solvency II have continued to be focused primarily on the preparation and submission of the Group's Internal Model Application, as well as on monitoring the progress of the development of the Solvency II regulations. The Group formally applied for regulatory approval of the Group's Internal Model, including the use of transitional measures, in June. This application is the culmination of many years of hard work across multiple areas of our business. We will continue to work with the PRA over the coming months as they review our application and expect to be notified of the outcome in December.

Our 2015 cash generation target incorporates assumptions about the impact of the new Solvency II regime on the Group, including our expectation that the technical provisions and capital requirements of the Group's life companies will be higher under Solvency II than the existing Individual Capital Assessment regime. However, this impact will be partly offset by transitional measures and, furthermore, we expect an improved Group capital position resulting from the change in the methodology applied to the Group pension schemes.

Although there remain uncertainties with regards to the new Solvency II capital regime, the Group expects to be well capitalised under Solvency II, with the Group capital position under Solvency II as calculated at PLHL expected to be in excess of the current PLHL ICA surplus. However, this is subject to regulatory approvals and should not be seen as representing the views of the PRA.

£135m

HY 2014: £266m

IFRS OPERATING PROFIT

The PRA has confirmed that transitional benefits will count as Tier 1 capital and so there is no adverse impact on the dividend-paying capacity of the Group from the use of transitional measures. In addition, we have £916 million of cash at the holding company level, providing further support for our stable and sustainable dividend policy.

INVESTMENT GRADE CREDIT RATING

The Group's robust financial position has been recognised by Fitch Ratings who assigned investment grade credit ratings for the Group's senior and subordinated debt in July. The investment grade ratings provide a number of benefits to the Group, including a 50bps reduction in the interest margin on the Group's bank debt to 262.5bps, effective from 28 August 2015, and broader access to the capital markets in future. With a wider potential investor universe the Group now has greater flexibility in future debt issuance, both with regards to the type and maturity of instruments, and an improved ability to issue regulatory compliant subordinated debt to support the Group's capital position.

Having achieved our ambition of an investment grade credit rating we will manage leverage at a level consistent with maintaining the investment grade rating.

IFRS OPERATING PROFIT

Finally, the Group achieved IFRS operating profits of £135 million in the first half of 2015 including £23 million from management actions, compared to £266 million in the first half of 2014, which included £114 million of management actions and a £17 million contribution from Ignis Asset Management before its divestment on 1 July 2014.

OPERATIONAL HIGHLIGHTS

Despite the ongoing changes impacting the UK life insurance industry, Phoenix Group has continued to simplify and streamline its business. Key actions taken during 2015 include:

- The Part VII transfer of the business of National Provident Life Limited into Phoenix Life Assurance Limited. This funds merger reduces the number of UK life insurance companies within the Group to two and the Group will examine the possible merger of the remaining two life companies in due course.
- An exchange offer of the Group's Tier 1 notes into new subordinated notes with a maturity of 2025 was completed in January 2015, with a 99% take up rate by noteholders.
- The simplification of the Group's corporate structure following the single silo bank facility put in place during 2014, with Impala Holdings Limited now 100% owned by PLHL. This Group simplification increased the IGD surplus by £0.3 billion and provides a more appropriate Group structure for the Solvency II capital regime.
- The planned divestment of the Group's small Irish subsidiary, Scottish Mutual International ('SMI') for sale consideration of £14 million. The small scale of SMI, which has only 3,000 remaining policyholders, had become inefficient and the divestment further simplifies the Group's structure.
- The acquisition of a £0.3 billion portfolio of equity release mortgages, in line with the strategy to diversify the asset portfolio by investing in new asset classes to support the Group's annuity liabilities.

This is an impressive list of achievements given the Group's ongoing Solvency II project and we will continue to seek ways to add value for customers and shareholders over the remainder of the year.

REGULATORY AND LEGISLATIVE CHANGES

The first half of 2015 saw a number of key regulatory changes to the UK life insurance sector.

The ending of compulsory annuitisation of pension pots, announced at the time of the 2014 Budget, is having a significant impact across the UK life insurance industry. Phoenix Group only provides annuities for vesting policyholders and wrote a total of £208 million of annuities in the first half of 2015, compared with £284 million in the first half of 2014. £164 million of these are annuities with attractive guaranteed annuity rates ('GARs'), and the take-up of these has remained high, in line with expectations. The guaranteed income that annuities provide remains an attractive option, particularly for many of our customers with larger pension pots of over £30,000. However, in line with expectations, we have seen volumes of non-GAR annuities that the Group writes fall by 47% since the first half of 2014 as policyholders continue to examine alternative options for their retirement.

The Financial Conduct Authority ('FCA') is expected to release its thematic review of the fair treatment of long-standing customers in life insurance during the second half of the year. We believe that the ongoing efforts of the Group to improve customer performance and service levels are a clear demonstration of good practice within the closed life fund market. In addition, as Phoenix does not write new products (other than vesting annuities) we do not believe that any actions arising from a review of cross-subsidisation would be relevant to us.

There are also a number of other ongoing reviews, including the HM Treasury consultation on pension transfers and early exit charges. Although the level of exit charges can vary by product, the average exit charge on our unit-linked policies is only around 1%. However, the Group looks forward to the publication of the consultation outcomes and will carefully examine any recommendations made.

Phoenix Group is currently undertaking significant activity in readiness for the changes to the Approved Persons regimes of the FCA and PRA. These changes are designed to meet the fit and proper requirements of the Solvency II Directive. In addition, the changes will address the requirements of the Senior Insurance Managers Regime, extending the conduct standards proposed for banks, as a result of the recommendations of the Parliamentary Commission on Banking Standards, to the insurance sector.

Finally, Phoenix Life has established an Independent Governance Committee for contract-based workplace pensions. Consistent with the continuing focus on product governance within Phoenix, the Committee is reviewing data and considering proposals to ensure that customers in our workplace pension schemes are being treated fairly.

CUSTOMERS

The most important change impacting our customers this year has undoubtedly been the introduction of the new pension freedoms from 6 April 2015. Phoenix Life has put in place an over-arching Retirement Strategy in reaction to the new pensions legislation, with the aim of being in a position to meet the future demands of our customers.

As expected, the number of customer calls has increased since the introduction of the new freedoms, with pension-related volumes immediately after 6 April being around twice the usual levels. While call volumes were high, we were very pleased that the actions we took in advance to increase our capacity such as increasing resource levels, extending contact centre opening hours, on-line retirement packs and outbound calling ensured a good customer experience was maintained.

It will take some time before the full impact of the new pension freedoms become clear, but to date around 15,000 customers have requested full encashment of their pension savings, with an average pot size of £13,000. However, the tax implications of full encashment are not well understood by many customers and Phoenix Life is therefore providing detailed information to customers on their options as well as promoting the availability of the Government's PensionWise service. In addition, customers are reminded of the value of guaranteed annuity rates within their products and encouraged to take financial advice before making important decisions on their pension savings.

To ensure that Phoenix Life customers have access to the range of options available under the new pension freedoms, Phoenix Life has agreed a wider partnership agreement with Just Retirement. This provides customers with a range of products, including the ability to 'shop around' for standard and enhanced annuities as well as offering a drawdown pension product. Access to enhanced annuities can increase the annuity income received by up to 40% and customers are strongly encouraged to investigate these and other options before making a final decision. The new partnership therefore also offers customers the ability to access financial advice as they plan for their retirement.

One unintended consequence of the new pension freedoms may be an increase in fraudsters targeting our customers. We therefore continue to take action to identify possible incidences of pension fraud where possible, but clearly there is now an increased responsibility for our customers to ensure that they understand how their retirement funds are invested.

Phoenix Life will continue to adapt its strategy with regard to the changes to the retirement market in order that customers are provided with access to information and a range of products and services. The investment already made in the operational capacity of Phoenix Life will allow the Group to continue to react to customer behaviour in the coming months.

Despite all the changes implemented in the first six months of the year, Phoenix Life has maintained a high level of customer service. We continue to deliver our Pensions Transfers and Open Market Options payments made through the Origo Faster Transfers system in around 11 days on average. Complaint handling is also a key area of focus and this is demonstrated by the level of overall volumes of incoming servicing complaints being only 0.3% of transactions, as well as a customer satisfaction rating of 96% for the first six months. With regard to the number of our decisions that are subsequently overturned by the Financial Ombudsman Service, our overturn rate of 22% remains significantly below the industry benchmark of 33%. Finally, we remain on course to meet our 2015 target to deliver £50 million of management actions to increase the level of distributable estate, which directly benefits our with-profit policyholders through increased future bonuses.

OUTLOOK

The first half of 2015 has been a busy one for the Group. In particular, the work undertaken for the introduction of Solvency II has involved a huge commitment from many employees and our Customer team has also capably managed the introduction of the new pension freedoms.

I continue to believe that the impact of regulatory changes will not only change the landscape of the UK life insurance industry but will also provide Phoenix with a number of opportunities, as open life companies are forced to reappraise their business models and strategies for their legacy policies. Following the achievement of the investment grade credit rating and continued financial delivery against our targets, the Group is well positioned to take advantage of these industry changes.

Irrespective of the wider ongoing challenges, our focus will remain on the continued delivery of strong organic performance across all of our key financial metrics and targets. We have consistently met or exceeded all of our public financial targets and this is a track record that we are committed to continuing.

On behalf of the Board I would like to welcome Henry Staunton as our new Chairman, replacing Howard Davies who is stepping down from the role at the end of August. In the last three years Howard has helped the Board, my Executive colleagues and me, to rebuild and strengthen Phoenix Group. We wish him well in the future with his new responsibilities and thank him for all his efforts.

I would also like to thank my colleagues for their hard work during the first half of the year and look forward to continuing to meet our financial objectives in future.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER
19 August 2015

BUSINESS REVIEW

KEY PERFORMANCE INDICATORS

OPERATING COMPANIES' CASH GENERATION

£110m

HY14: £332m

With cash generation of £110 million the Group is on track to meet its full year cash generation target for 2015 of £200 million to £250 million.

Management actions contributed £20 million to cash generation through operational enhancements and de-risking activities.

The cumulative cash flow target for 2014 to 2019 is £2.8 billion[1], including Ignis divestment proceeds. £1.1 billion out of £2.8 billion has been achieved by 30 June 2015.

1 This target has been set on the assumption that Solvency II regulations operate as expected.

GROUP MCEV

£2,575m

YE14: £2,647m

Group MCEV decreased by £72 million at 30 June 2015, reflecting the payment of the 2014 final dividend and market movements during the period. This has been partly offset by the delivery of £84 million of value enhancing management actions in the period.

The Group's incremental MCEV target is £400 million between 2014 and 2016, of which £345 million has now been delivered.

FINANCIAL LEVERAGE

39.2%

YE14: 39.3%

Financial leverage decreased to 39.2% at 30 June 2015, reflecting debt repayments in the period.

Fitch Ratings assigned the Group an investment grade credit rating in August 2015, which will trigger a further 50bps margin reduction on the outstanding bank facility effective from 28 August 2015.

The Group's financial leverage target is to manage our financial leverage to a level that is consistent with maintaining an investment grade credit rating.

IFRS OPERATING PROFIT

£135m

HY14: £266m

Group IFRS operating profit has decreased by £131 million to £135 million, principally reflecting the lower benefit generated from management actions of £23 million (HY14: £114 million) compared to the prior period and the divestment of Ignis on 1 July 2014.

IGD SURPLUS (ESTIMATED)

£1.6bn

YE14: £1.2bn

The estimated IGD surplus has increased by £0.4 billion in the period. The increase is primarily due to the simplification of the Group's corporate structure, with Phoenix Life Holdings Limited ('PLHL') now recognising 100% of the capital resources and requirements of Impala Holdings Limited and its subsidiaries. The surplus of £1.6 billion represents headroom of £0.8 billion (YE14: £0.5 billion) over the Group's IGD regulatory capital policy.

PLHL ICA SURPLUS (ESTIMATED)

£0.7bn

YE14: £0.7bn

The PLHL ICA surplus has remained stable at £0.7 billion as at 30 June 2015. The simplification in Group structure has not impacted the PLHL ICA surplus. The surplus of £0.7 billion represents headroom of £0.6 billion (YE14: £0.6 billion) over the PLHL ICA regulatory capital policy.

As agreed with the PRA, the Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million.

DIVIDEND PER SHARE

26.7p

HY14: 26.7p

Interim dividend per share of 26.7p.

The dividend is in line with the 2014 interim and final dividends.

CASH GENERATION

CASH GENERATION

HOLDING COMPANIES' CASH FLOWS

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

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

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m
Cash and cash equivalents at 1 January	**988**	995
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**110**	211
Cash receipts from Ignis	**–**	32
Other cash receipts	**–**	89
Total cash receipts[1]	**110**	332
Uses of cash:		
Operating expenses	**(13)**	(13)
Pension scheme contributions	**(8)**	(13)
Debt interest	**(32)**	(59)
Total recurring outflows	**(53)**	(85)
Non-recurring outflows	**(9)**	(16)
Uses of cash before debt repayments and shareholder dividend	**(62)**	(101)
Debt repayments	**(60)**	(85)
Shareholder dividend	**(60)**	(60)
Total uses of cash	**(182)**	(246)
Cash and cash equivalents at 30 June[2]	**916**	1,081

1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £43 million (HY14: £4 million).

2 Closing balance at 30 June 2015 includes required prudential cash buffer of £150 million (30 June 2014: £150 million).

Cash receipts

Cash remitted by the operating companies was £110 million (HY14: £332 million), driven largely by the opening free surplus within the life companies and cash inflows of £20 million from management actions. Management actions increased cash flows through operational enhancements and de-risking activities. The reduction from the prior period reflects strengthening anticipated under Solvency II assumptions. The prior period also included cash receipts from Ignis which was disposed of in the second half of 2014, the sale of BA(GI) Limited and a one off benefit relating to the restructure of the PGL pension scheme.

The Group remains on track to meet its cash generation target range of between £200 million to £250 million in 2015.

Phoenix Life free surplus

The generation of free surplus, net of movements in required capital, underpins the cash remittances from Phoenix Life. The table below analyses the movement in free surplus of Phoenix Life which represents the life companies' free surplus:

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m
Opening free surplus	**196**	529
IFRS operating profit	**141**	256
IFRS investment variances and non-recurring items	**45**	3
IFRS tax	**(23)**	(52)
Movements in capital requirements and policy	**73**	3
Valuation differences and other[1]	**(7)**	(149)
Free surplus generated in the period	**229**	61
Cash distributed to holding companies	**(110)**	(211)
Closing free surplus[1]	**315**	379

1 Includes differences between valuation of assets and liabilities on an IFRS basis versus a capital basis.

The Phoenix Life free surplus of £315 million, which is based on a Solvency I basis, reflects the expected surplus arising and the inherent release of capital requirements from the run-off of the life funds, partly offset by cash distributions to the holding companies. The prior period comparative included the impact of the strengthening of stress assumptions in respect of longevity, credit and correlations.

RECURRING CASH OUTFLOWS

Operating expenses of £13 million (HY14: £13 million) are in line with the prior period and reflect costs of the corporate office partially offset by investment income.

Pension scheme contributions of £8 million (HY14: £13 million) are in line with the latest triennial funding agreement, the decrease reflects that 2014 included a one off £5 million payment to the PGL Pension Scheme.

Debt interest decreased to £32 million (HY14: £59 million) includes the payment of £20 million of the Tier 1 notes and mainly reflects lower debt principal balances following repayment and refinancing activity in the second half of 2014. The coupons payable on both the PGH Capital senior bond and the PGH Capital subordinated notes is due in the second half of 2015.

NON-RECURRING CASH OUTFLOWS

Non-recurring cash outflows of £9 million reflect Group restructuring and corporate related projects.

DEBT REPAYMENTS AND SHAREHOLDER DIVIDEND

A prepayment of £30 million and a scheduled repayment of £30 million were made in respect of the PGH Capital facility.

The shareholder dividend of £60 million comprises the payment of the 2014 final dividend.

GROUP MCEV

GROUP MCEV

GROUP MCEV OPERATING EARNINGS[1]

The Group has generated MCEV operating earnings after tax of £73 million, a decrease of £89 million on the comparative period.

MCEV operating earnings	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m
Life MCEV operating earnings[2]	**89**	181
Management services operating profit	**15**	16
Ignis operating profit – discontinued operations	**–**	17
Group costs	**(13)**	(10)
Group MCEV operating earnings before tax	**91**	204
Tax on operating earnings	**(18)**	(42)
Group MCEV operating earnings after tax	**73**	162
Economic variances on life business	**(13)**	(28)
Economic variances on non-life business	**(6)**	(37)
Other non-operating variances on life business	**15**	(132)
Non-recurring items on non-life business	**(23)**	59
Finance costs attributable to owners	**(56)**	(62)
Tax on non-operating earnings	**–**	20
Group MCEV earnings after tax	**(10)**	(18)

1 The Phoenix Group Market Consistent Embedded Value methodology (referred to herein and in the supplementary information as MCEV) is set out in note 1 to the supplementary information. The asset management (prior ot its disposal) and management services businesses are included in the Group MCEV at the value of their IFRS net assets. The Group MCEV does not include the future earnings from their businesses.

2 Life MCEV operating earnings are derived on an after tax basis. For presentational purposes, Life MCEV operating earnings before tax have been calculated by grossing up the after tax Life MCEV operating earnings. Life MCEV operating earnings before tax of £89 million (HY14: £181 million) are therefore calculated as £71 million operating earnings (HY14: £142 million) grossed up for tax at 20.25% (HY14: 21.5%).

LIFE MCEV OPERATING EARNINGS AFTER TAX

Other than vesting annuities and increments to existing policies, Phoenix Life is closed to new business. The principal underlying components of the Life MCEV operating earnings are therefore the expected existing business contribution together with non-economic experience variances and assumption changes.

Life MCEV operating earnings after tax	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m
Expected existing business contribution	**57**	72
New business value	**2**	7
Non-economic experience variances and assumption changes:		
Experience variances	**(4)**	36
Assumption changes	**(20)**	(17)
Other operating variances	**36**	44
Total non-economic experience variances and assumption changes	**12**	63
Life MCEV operating earnings after tax	**71**	142

The Group uses long-term investment returns in calculating the expected existing business contribution. The expected contribution of £57 million after tax is £15 million lower than in 2014, primarily due to a decrease in the long-term risk-free rate used to calculate operating earnings. The long-term risk-free rate is based on the opening position at 1 January 2015.

New business value generated from vesting annuities without guarantees was £2 million (HY14: £7 million) after tax. New business value represents the value of vesting pension policies not reflected in the opening MCEV. These arise from pension policies which have no attaching annuity guarantees. The reduction reflects a decrease in volumes and reductions in margins following the implementation of the new rules on pension freedoms from 6 April 2015.

Non-economic experience variances and assumption changes increased MCEV by £12 million after tax in the period and primarily relate to the positive impact of modelling enhancements and balance sheet reviews undertaken in the period of £33 million. This has been partly offset by the adverse impact of strengthening longevity assumptions of £20 million.

MANAGEMENT SERVICES

Commentary on the management services companies is provided in the Group IFRS operating profit section.

GROUP COSTS

The Group costs of £13 million (HY14: £10 million) have increased compared to the prior period due to a reduction in long-term investment returns following the disposal of certain collective investment scheme holdings in 2014.

ECONOMIC VARIANCES

Negative economic variances on life business of £13 million before tax (HY14: negative £28 million) reflect the negative impact of the difference between actual short-term returns and the long-term investment return assumptions used to determine operating earnings and the impact of rising yields in the period. This has been partly offset by a gain on the purchase of a portfolio of equity release mortgages and the resultant increase in liquidity premium, together with positive equity returns and policyholder tax variances in the period.

Economic variances on non-life business are negative £6 million (HY14: negative £37 million), principally driven by a net increase in the market value of the PGH Capital debt instruments. The prior period result included losses of £40 million relating to an increase in the market value of the Tier 1 Notes, which were exchanged for new PGH Capital subordinated notes in January 2015.

OTHER NON-OPERATING VARIANCES ON LIFE BUSINESS

Other non-operating variances on life business increased Group MCEV by £15 million (HY14: decrease £132 million) and principally comprise the partial release of provisions associated with external regulatory changes, including the cap on workplace pension charges and the pension guidance levy.

NON-RECURRING ITEMS ON NON-LIFE BUSINESS

Non-recurring items on non-life business decreased MCEV by £23 million before tax (HY14: increase £59 million). Non-recurring items include a loss of £22 million recognised on the exchange of the Tier 1 notes and related transaction expenses.

Non-recurring items in the comparative period included £68 million income received by Pearl Group Holdings (No. 1) Limited ('PGH1') from the with-profit funds in relation to the close-out of the PGL Pension Scheme longevity indemnity agreement, partly offset by £16 million of Group project and transformation costs, with net other one off items having a positive impact of £7 million.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m
Debt finance costs[1]	**16**	36
Other finance costs	**20**	–
Tier 1 notes coupon	**20**	26
Finance costs attributable to owners	**56**	62

1 Finance costs in respect of bank debt.

Debt finance costs have decreased by £6 million, reflecting lower debt principal balances following the repayments and refinancing activity in the second half of 2014.

GROUP MCEV

The movement from opening to closing Group MCEV is shown below:

Movement in Group MCEV	**Half year ended 30 June 2015 £m**	Half year ended 30 June 2014 £m
Group MCEV at 1 January	**2,647**	2,378
Group MCEV earnings after tax	**(10)**	(18)
Other comprehensive income:		
Remeasurements and contributions on defined benefit pension schemes (net of tax)	**(6)**	32
Capital and dividend flows	**(56)**	(64)
Group MCEV at 30 June	**2,575**	2,328

Pension contributions of £6 million (net of tax) in respect of the PGL Pension Scheme (HY14: £10 million) were recognised in other comprehensive income during the period. There were no pension contributions made in respect of the Pearl Group Staff Pension Scheme during the period. The prior year comparative included an actuarial gain of £42 million (net of tax) in respect of the Pearl Group Staff Pension Scheme.

Capital and dividend flows in the period comprise external dividend payments of £60 million (HY14: £60 million) partly offset by movements in own shares held of £4 million.

IFRS OPERATING PROFIT

IFRS OPERATING PROFIT

GROUP IFRS OPERATING PROFIT

The Group has generated an IFRS operating profit of £135 million (HY14: £266 million).

Group operating profit	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m
Phoenix Life	**141**	256
Ignis – discontinued operations	**–**	17
Group costs	**(6)**	(7)
Operating profit before adjusting items	**135**	266
Investment return variances and economic assumption changes on long-term business	**44**	59
Variance on owners' funds	**(4)**	–
Amortisation of acquired in-force business, customer relationships and other intangibles	**(48)**	(55)
Non-recurring items	**1**	9
Profit before finance costs attributable to owners	**128**	279
Finance costs attributable to owners	**(49)**	(48)
Profit before the tax attributable to owners:		
From continuing operations	**79**	258
From discontinued operations	**–**	(27)
	79	231
Tax charge attributable to owners from continuing operations	**(1)**	(49)
Tax credit attributable to owners from discontinued operations	**–**	9
Profit for the period attributable to owners	**78**	191

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 longer-term investment return are set out in note 5 to the IFRS condensed consolidated 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 2015 £m	Half year ended 30 June 2014 £m
With-profit	**36**	36
With-profit where internal capital support provided	**9**	(6)
Non-profit and unit-linked	**76**	205
Longer-term return on owners' funds	**5**	5
Management services	**15**	16
Phoenix Life operating profit before tax	**141**	256

The with-profit operating profit of £36 million represents the shareholders' one-ninth share of the policyholder bonuses and is in line with the comparative period (HY14: £36 million).

The with-profit funds where internal capital support has been provided generated an operating profit of £9 million (HY14: £6 million loss). This mainly reflects the positive impact of modelling enhancements undertaken in the period of £15 million (HY14: £24 million adverse) partly offset by the negative impact of strengthening longevity assumptions.

The operating profit on non-profit and unit-linked funds was £76 million (HY14: £205 million). The decrease compared to the prior period reflects the lower one off positive impact from modelling enhancements and balance sheet reviews of £6 million (HY14: £138 million) and the negative impact of strengthening longevity assumptions.

Of the £76 million of non-profit and unit-linked IFRS operating profits, £4 million was generated on annuity new business (HY14: £14 million). The reduction reflects a decrease in volumes and reduction in margins following the implementation of the new rules on pension freedoms from 6 April 2015.

The longer-term return on owners' funds of £5 million (HY14: £5 million) reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities. The investment policy for managing these assets remains prudent.

The operating profit for management services of £15 million (HY14: £16 million) comprises income from the life companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs. The decrease compared to the prior period reflects the impact of life company run-off.

IGNIS

The prior period operating profit of the asset management business of £17 million represents its divisional result for the six months prior to its divestment from the Group on 1 July 2014.

GROUP COSTS

Group costs in the period were £6 million (HY14: £7 million). The reduction compared to the prior period reflects an increased return on the higher opening pension scheme surplus for both the PGL Pension Scheme and the Pearl Group Staff Pension Scheme which has more than offset a reduction in long-term investment returns following the disposal of certain collective investment scheme holdings in 2014.

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

Positive investment return variances and economic assumption changes on long-term business of £44 million (HY14: £59 million) include the minority share of the result of the consolidated UKCPT property investment structure of £26 million (HY14: £37 million). The remaining positive variance of £18 million reflects a gain on the purchase of a portfolio of equity release mortgages arising from the yield uplift on assets available to back annuity liabilities and the positive impact of increasing yields on short asset positions held relative to the longer term IFRS basis liabilities.

VARIANCE ON OWNERS' FUNDS

The negative variance on owners' funds of £4 million (HY14: £nil) is principally driven by negative investment return variances on investments and hedging positions held by the shareholder funds and holding companies.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the operating companies in 2009. The acquired in-force business is being amortised in line with the run-off of the life companies. Amortisation of acquired in-force business during the period totalled £41 million (HY14: £48 million). Amortisation of other intangible assets totalled £7 million in the period (2014: £7 million).

NON-RECURRING ITEMS

Non-recurring items of £1 million positive (HY14: £9 million positive) include an £11 million release of cost provisions associated with external regulatory changes, including the cap on workplace pension charges and the pension guidance levy partly offset by £8 million of corporate project costs and £2 million of net other items. The prior period result included income received by PGH1 of £68 million in relation to the close-out of the PGL Pension Scheme longevity indemnity agreement with the with-profit funds, partly offset by costs of £14 million arising from external regulatory changes with respect to the cap on workplace pension charges, £27 million of capitalised costs in respect of VAT on future investment management expenses arising as a result of the divestment of Ignis, corporate project costs of £11 million and net £7 million of costs associated with other items.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m
Bank finance costs	**17**	36
Other finance costs	**32**	12
Finance costs attributable to owners	**49**	48

Debt finance costs have increased by £1 million, reflecting the recognition of £12 million of finance costs relating to the new PGH Capital subordinated notes which were exchanged for the Tier 1 notes in January 2015. The coupon payable on the Tier 1 notes was previously recognised directly in equity. This has been largely offset by the impact of lower debt principal balances following debt repayments and the restructuring of the bank debt.

TAX CREDIT ATTRIBUTABLE TO OWNERS

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

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

The Group tax charge for the period attributable to owners from continuing operations is £1 million (HY14: £49 million) based on a profit (after policyholder tax) of £79 million (HY14: £258 million). The actual charge is lower than the expected charge (based on the UK corporation tax rate of 20.25%) of £16 million primarily due to certain profit being either non-taxable or taxable at rates other than the standard rate and the recognition of previously unrecognised deferred tax assets (see note 6 to the IFRS condensed consolidated interim financial statements for analysis with respect to continuing operations). The tax credit attributable to discontinued operations is £nil (HY14: £9 million).

CAPITAL MANAGEMENT

CAPITAL MANAGEMENT

The Group has continued to focus on capital and gearing during the period. Our capital position remains robust, the IGD surplus is £1.6 billion and the PLHL ICA surplus is £0.7 billion at 30 June 2015. In August 2015, Fitch Ratings assigned the Group an investment grade credit rating.

REGULATORY CAPITAL REQUIREMENTS

IGD surplus (estimated)

Each UK life company must maintain sufficient capital at all times to meet the regulatory capital requirements mandated by the PRA. These measures are aggregated under the European Union Insurance Groups' Directive ('IGD') to calculate regulatory capital adequacy at a Group level.

The Group's IGD assessment is made at the level of the highest EEA insurance group holding company, which is Phoenix Life Holdings Limited ('PLHL'), a subsidiary of Phoenix Group Holdings. The estimated IGD surplus at 30 June 2015 is £1.6 billion (YE14: £1.2 billion). The components of the estimated IGD calculation are shown below:

	Half year ended 30 June 2015 £bn	Year ended 31 December 2014 £bn
Group capital resources ('GCR')	6.5	5.5
Group capital resource requirement ('GCRR')	(4.9)	(4.3)
IGD surplus (estimated)	**1.6**	1.2

The estimated IGD surplus has increased by £0.4 billion in the period. The increase is primarily due to the simplification of the Group's corporate structure, with PLHL now recognising 100% of the capital resources and requirements of Impala Holdings Limited and its subsidiaries which has benefited the IGD surplus by £0.3 billion. The surplus of £1.6 billion represents headroom of £0.8 billion (YE14: £0.5 billion) over the Group's IGD regulatory capital policy.

The Group's regulatory capital policy, which is agreed with the PRA, is to maintain GCR at the PLHL level of:

- 105% of the with-profit insurance component ('WPICC'), being an additional capital requirement of with-profit funds plus
- 145% of the GCRR less the WPICC.

PLHL ICA surplus (estimated)

In accordance with PRA requirements, the Group undertakes an Individual Capital Assessment ('ICA') at the level of the highest EEA insurance group holding company, which is PLHL. This involves an assessment, on an economic basis, of the capital resources and requirements arising from the obligations and risks which exist outside the life companies.

As agreed with the PRA, the Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million. The estimated PLHL ICA position at 30 June 2015 is set out below:

	Half year ended 30 June 2015 £bn	Year ended 31 December 2014 £bn
Capital resources[1]	1.0	1.0
Capital resource requirements[2]	(0.3)	(0.3)
PLHL ICA surplus (estimated)	**0.7**	0.7

1 Capital resources includes the surplus over capital policy in the life companies and the net assets of the holding companies less pension scheme obligations calculated on an economic basis.

2 Capital requirements relate to the risks arising outside of the life companies including those in relation to the Group's staff pension schemes, offset by Group diversification benefits.

Headroom over the Group's £150 million capital policy was £0.6 billion as at 30 June 2015 (31 December 2014: £0.6 billion).

The PLHL ICA surplus has remained stable during the period. The simplification of the Group structure has not impacted the PLHL ICA surplus as the risk based calculation has historically recognised 100% of the capital resources and requirements of Impala Holdings Limited and its subsidiaries.

SENSITIVITY AND SCENARIO ANALYSIS

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing are provided below:

	Estimated IGD surplus 30 June 2015 £bn	Estimated PLHL ICA surplus 30 June 2015 £bn
Sensitivity analysis		
Base: 30 June 2015	1.6	0.7
Following a 20% fall in equity markets	1.6	0.6
Following a 15% fall in property values	1.6	0.6
Following a 75bps increase in nominal yields[1]	1.5	0.8
Following a 75bps decrease in nominal yields[1]	1.6	0.6
Following credit spread widening[2]	1.6	0.5

1 75bps increase/decrease in nominal yields and a 75bps increase/decrease in inflation.

2 11–15 year term: AAA – 46bps, AA – 69bps, A – 102bps, BBB – 144bps.

The relative insensitivity of the Group's IGD surplus reflects the nature of Pillar 1 rules for with-profit funds which stipulate that the surplus estate is treated as policyholder liabilities. The sensitivities reflect the impact of market movements not only on the Group's life companies but also on its staff pension schemes.

CAPITAL RESOURCES

CAPITAL RESOURCES

The primary sources of capital used by the Group comprise equity shareholder funds as measured on an MCEV basis and shareholder borrowings.

LEVERAGE

In managing capital the Group seeks to optimise the level of debt on its balance sheet. The Group's closed book business model allows it to operate with higher leverage than life companies that are still writing new business, as it does not need to fund upfront capital requirements and new business acquisition expenses.

Financial leverage ratio

The Group monitors the level of debt in its statement of consolidated financial position by reference to the financial leverage ratio. The financial leverage ratio is used to determine the interest margin payable on the PGH Capital bank facility.

The financial leverage ratio as at 30 June 2015 decreased to 39.2% (YE14: 39.3%) reflecting debt repayments in the period.

The financial leverage ratio is calculated as gross shareholder debt[1] as a percentage of gross MCEV[2]. Gross shareholder debt and shareholder debt (including hybrid debt) included in MCEV at 30 June 2015 are set out in the table below:

	Half year ended 30 June 2015 £m	Year ended 31 December 2014 £m
PGH Capital facility	**780**	840
PGH Capital senior bond	**300**	300
PGH Capital subordinated notes[3]	**396**	–
PLL subordinated debt	**200**	200
Tier 1 note[4]	**6**	394
Gross shareholder debt	**1,682**	1,734
Adjustments to include the following items at fair value:		
PLL subordinated debt	**12**	12
PGH Capital senior bond	**20**	22
PGH Capital subordinated notes	**7**	–
Tier 1 notes[4]	**–**	(7)
Shareholder debt included in MCEV	**1,721**	1,761

1 Gross shareholder debt is defined as the notional face value of the shareholder and hybrid debt.

2 Gross MCEV is defined as the sum of Group MCEV and the value of shareholder and hybrid debt as included in the MCEV.

3 Total face value of the PGH Capital subordinated notes is £428 million (YE14: £nil), of which bonds with a face value of £32 million (YE14: £nil) are held by Group companies.

4 Total face value of the Tier 1 notes is £6 million (YE14: £425 million), of which bonds with a face value of £nil (YE14: £31 million) are held by Group companies.

The Group's gross shareholder debt decreased by £52 million to £1,682 million in the period. This reduction includes a prepayment of £30 million and a scheduled repayment of £30 million in respect of the PGH Capital facility.

In January 2015, the Group announced the exchange of 99% of the Group's Tier 1 notes for £428 million of new subordinated notes, issued by PGH Capital. As the new notes mature in 2025, the notes will be included in the financial leverage calculation at their notional face value of £396 million, excluding notes with a face value of £32 million held by Group companies.

In August 2015, Fitch Ratings assigned the Group an investment grade credit rating, which will trigger a further 50bps margin reduction on the outstanding bank facility effective from 28 August 2015. The Group's financial leverage target is to manage our financial leverage to a level that is consistent with maintaining an investment grade credit rating.

Further detail on shareholder debt is included in note 13 to the IFRS condensed consolidated interim financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

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

CHANGE IN RISK FROM LAST YEAR	TREND
Risk improving	
No change	
Risk deteriorating	

RISK	IMPACT	MITIGATION	CHANGE FROM LAST YEAR
In times of severe market turbulence, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or it may suffer a loss in value.	The emerging cash flows of the Group may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's embedded value.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against adverse customer and shareholder outcomes. The Group also maintains cash buffers in its holding companies to reduce reliance on emerging cash flows.	Yields on UK government debt have increased over the past six months, which has improved the Group's excess capital position. The position is closely managed and actions are implemented in response to market movements.
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 of relevant debt securities. The Group is also exposed to trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under Reinsurance arrangements or stock-borrowers failing to pay as required. An increase in credit spreads on debt securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could have a material adverse impact on the Group's financial condition.	The Group regularly monitors its counterparty exposure and has specific limits relating to individual holdings and counterparty credit rating. Where possible, exposures are diversified through the use of a range of counterparty providers. All material Reinsurance and derivative positions are appropriately collateralised and guaranteed.	The Group continues to monitor counterparty exposures holistically across all counterparty obligations, both in respect of debt securities and trading. In some cases individual counterparty holdings have been adjusted to ensure the Group remains within risk appetite.
Adverse changes in experience versus actuarial assumptions.	The Group has liabilities under annuities and other policies that are sensitive to future longevity and mortality rates. Changes in assumptions may lead to changes in the assessed level of liabilities to policyholders. The amount of additional capital required to meet those liabilities could have a material adverse impact on the Group's embedded value, results, financial condition and prospects.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any variances in assumptions. The Group has also entered into a Reinsurance contract to manage this risk within appetite.	There has been no adverse change in experience over the period.

RISK	IMPACT	MITIGATION	CHANGE FROM LAST YEAR
The implementation of the Solvency II Directive may impair the ability of the Group to meet cash flow targets.	During 2015, our activities in relation to Solvency II have been focused on the preparation of the Group's Internal Model Application (IMAP), as well as on monitoring the impact of, and reacting to, the developing Solvency II regulations.	The Group's IMAP submission was completed on 30 June 2015. Whilst the outcome of the submission is not yet known, the Group continues to work closely with the PRA on the implementation of the Directive. Contingency plans continue to be developed to mitigate adverse outcomes, should these be required.	Over 2015, clarity on Solvency II regulations has improved but uncertainties remain in relation to the Group's IMAP and other Solvency II-related applications.
Changes in the regulatory and legislative landscape may impact the way that Phoenix Life engages with its customers.	The move to the conduct-focused regulator has seen a continued move away from rules-based regulation with a greater focus on customer outcomes. This may challenge the existing approach and/or may result in remediation exercises where regulatory expectations differ from existing practices.	The Group puts considerable effort into improving customer outcomes and managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes to the regulatory landscape. The Group assesses the risks of regulatory change and the impact on our operations and lobbies where appropriate.	2014 and 2015 have seen a number of key regulatory changes to the UK life insurance sector. The financial impacts of several of these changes have not yet fully crystallised and the Group continues to take actions to prepare for the possible range of outcomes, including the way in which our customers have reacted to the new options available at retirement.
Changes in the retirement marketplace may result in poor outcomes for customers.	The changes in the retirement marketplace have opened up a number of new options for customers. While these options provide greater flexibility for customers, customers need to engage with the process to ensure they make informed decisions that are suitable for their needs. Additionally, providers need to ensure that their processes facilitate effective decision making by customers. Failure to do this may result in a risk that a customer takes an option that they do not understand or that may not be appropriate for them.	Phoenix Life has made a number of changes to its retirement processes to take account of the changes. These include ensuring that appropriate risk warnings are provided to customers in advance of them taking a course of action. This is aligned to the new rules that the FCA have outlined in PS15/4.	The required changes to support the pension reforms on 6 April were successfully implemented. A partnership arrangement is in place that enables Phoenix customers to access the full range of retirement-related advice services and products. Customers also retain the option of accessing these services/products from elsewhere in the marketplace.

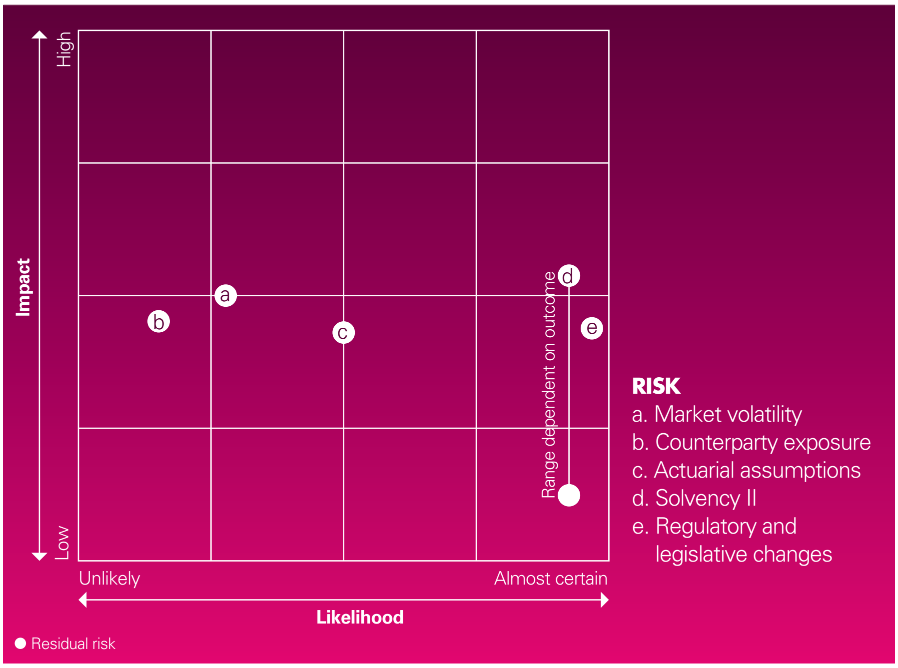
The current assessment of the residual risk in respect of each of the Group's principal risks is illustrated in the chart opposite.

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.

PRINCIPAL RISKS



RISK TITLE	DESCRIPTION	RISK UNIVERSE CATEGORY
Regulatory thematic reviews	The unknown consequences and the potential impact, including retrospective activity, to the Group as a result of reviews conducted by the regulators or HM Treasury.	Customer
Pressure on charges	The potential impact of regulatory focus and industry wide reviews on Policyholder charges expected over the course of the next year.	Customer

IFRS FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- the condensed consolidated interim financial statements for the half year ended 30 June 2015, 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 2015 and for the financial half year to which the Interim Report relates. 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 a fair view of the information required on material transactions with related parties and any material changes in related party transactions described in the last annual report.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER
St Helier, Jersey
19 August 2015

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

AUDITOR'S REVIEW REPORT

To: The Board of Directors of Phoenix Group Holdings

INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2015 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 31 to 51. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

DIRECTORS' RESPONSIBILITIES

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

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

OUR RESPONSIBILITY

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

SCOPE

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Ernst & Young LLP

ERNST & YOUNG LLP
LONDON
19 August 2015

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Notes	**Half year ended 30 Jun 2015 £m**	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Continuing operations				
Gross premiums written		**415**	513	981
Less: premiums ceded to reinsurers		**(28)**	(31)	(1,792)
Net premiums written		**387**	482	(811)
Fees		**47**	50	94
Net investment income		**372**	2,052	6,034
Total revenue, net of reinsurance payable		**806**	2,584	5,317
Gain on transfer of business		**–**	4	4
Other operating income		**4**	5	9
Net income		**810**	2,593	5,330
Policyholder claims		**(1,851)**	(1,888)	(3,724)
Less: reinsurance recoveries		**150**	109	341
Change in insurance contract liabilities		**1,617**	56	(1,990)
Change in reinsurers' share of insurance contract liabilities		**(233)**	12	1,651
Transfer from/(to) unallocated surplus		**40**	(19)	(11)
Net policyholder claims and benefits incurred		**(277)**	(1,730)	(3,733)
Change in investment contract liabilities		**(126)**	(187)	(408)
Acquisition costs		**(4)**	(5)	(9)
Change in present value of future profits		**(4)**	(8)	(9)
Amortisation of acquired in-force business		**(45)**	(53)	(98)
Amortisation of customer relationships and other intangibles		**(7)**	(7)	(15)
Administrative expenses		**(218)**	(202)	(429)
Net income attributable to unitholders		**(12)**	(29)	(8)
Total operating expenses		**(693)**	(2,221)	(4,709)
Profit before finance costs and tax		**117**	372	621
Finance costs		**(69)**	(82)	(156)
Profit for the period before tax		**48**	290	465
Tax attributable to policyholders' returns	6	**31**	(32)	(129)
Profit before the tax attributable to owners		**79**	258	336
Tax credit/(charge)	6	**30**	(81)	(151)
Add: tax attributable to policyholders' returns	6	**(31)**	32	129
Tax charge attributable to owners	6	**(1)**	(49)	(22)
Profit from continuing operations for the period attributable to owners		**78**	209	314
Discontinued operations				
(Loss)/profit from discontinued operations, net of tax	3	**–**	(18)	92
Profit for the period attributable to owners		**78**	191	406

	Notes	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Attributable to:				
Owners of the parent		**51**	144	310
Non-controlling interests	10	**27**	47	96
		78	191	406
Earnings per share				
Basic earnings per share	7	**22.7p**	64.1p	137.7p
Diluted earnings per share	7	**22.7p**	64.1p	137.5p
Earnings per share from continuing operations				
Basic earnings per share from continuing operations	7	**22.7p**	72.3p	96.7p
Diluted earnings per share from continuing operations	7	**22.7p**	72.3p	96.5p

CONDENSED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Notes	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Profit for the year from continuing operations		**78**	209	314
(Loss)/profit from discontinued operations		**–**	(18)	92
		78	191	406
Other comprehensive (expense)/income:				
Items that are or may be reclassified to profit or loss:				
Foreign exchange rate movements		**–**	(8)	10
Reclassification adjustments relating to foreign collective investment schemes disposed of in the period		**(10)**	–	–
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit asset/liability		**(43)**	71	240
Tax credit relating to other comprehensive income items	6	**1**	8	11
Total other comprehensive (expense)/income for the period		**(52)**	71	261
Total comprehensive income for the period		**26**	262	667
Attributable to:				
Owners of the parent		**(1)**	215	571
Non-controlling interests	10	**27**	47	96
		26	262	667

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

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Notes	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Operating profit				
Phoenix Life		**141**	256	487
Ignis – discontinued operations		**–**	17	17
		141	273	504
Group costs		**(6)**	(7)	(21)
Total operating profit before adjusting items		**135**	266	483
Investment return variances and economic assumption changes on long-term business	5.1	**44**	59	12
Variance on owners' funds	5.2	**(4)**	–	(14)
Amortisation on acquired in-force business		**(41)**	(48)	(88)
Amortisation of customer relationships and other intangibles		**(7)**	(7)	(15)
Non-recurring items	4.2	**1**	9	126
Profit before finance costs attributable to owners		**128**	279	504
Finance costs attributable to owners		**(49)**	(48)	(88)
Profit/(loss) before the tax attributable to owners:				
From continuing operations		**79**	258	336
From discontinued operations		**–**	(27)	80
	4.2	**79**	231	416
Tax charge attributable to owners from continuing operations		**(1)**	(49)	(22)
Tax credit attributable to owners from discontinued operations		**–**	9	12
Profit for the period attributable to owners		**78**	191	406

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

AS AT 30 JUNE 2015

	Notes	30 Jun 2015 £m	30 Jun 2014 £m	31 Dec 2014 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	9	–	–	–
Share premium		921	1,038	979
Shares held by employee benefit trust and Group entities		(5)	(14)	(8)
Foreign currency translation reserve		93	85	103
Retained earnings		1,287	951	1,291
Total equity attributable to owners of the parent		2,296	2,060	2,365
Non-controlling interests	10	536	825	913
Total equity		2,832	2,885	3,278
Liabilities				
Pension scheme liability	11	–	98	–
Insurance contract liabilities				
Liabilities under insurance contracts	12	41,184	42,657	42,930
Unallocated surplus		925	989	981
		42,109	43,646	43,911
Financial liabilities				
Investment contracts		8,250	8,508	8,451
Borrowings	13	2,108	2,285	1,762
Deposits received from reinsurers		385	384	408
Derivatives		1,700	1,616	2,192
Net asset value attributable to unitholders		5,218	5,431	4,659
Obligations for repayment of collateral received		818	5,324	954
	14	18,479	23,548	18,426
Provisions		22	26	26
Deferred tax		331	335	364
Reinsurance payables		10	12	9
Payables related to direct insurance contracts		389	402	358
Current tax		58	149	165
Accruals and deferred income		146	92	130
Other payables		999	1,514	360
Liabilities classified as held for sale	3.2	1,895	111	1,776
Total liabilities		64,438	69,933	65,525
Total equity and liabilities		67,270	72,818	68,803

	Notes	30 Jun 2015 £m	30 Jun 2014 £m	31 Dec 2014 £m
ASSETS				
Pension scheme asset	11	**396**	276	426
Intangible assets				
Goodwill		**39**	39	39
Acquired in-force business		**1,368**	1,458	1,413
Customer relationships and other intangibles		**210**	225	217
Present value of future profits		**19**	24	23
		1,636	1,746	1,692
Property, plant and equipment		**15**	15	15
Investment property		**1,817**	1,683	1,858
Financial assets				
Loans and receivables		**454**	1,560	196
Derivatives		**1,660**	1,349	2,558
Equities		**12,765**	13,869	13,168
Investment in joint ventures		**138**	118	133
Fixed and variable rate income securities		**35,871**	35,643	34,384
Collective investment schemes		**3,668**	2,438	3,583
	14	**54,556**	54,977	54,022
Insurance assets				
Reinsurers' share of insurance contract liabilities		**2,601**	2,854	2,772
Reinsurance receivables		**32**	35	67
Insurance contract receivables		**9**	10	8
		2,642	2,899	2,847
Current tax		**5**	7	8
Prepayments and accrued income		**402**	421	405
Other receivables		**695**	1,737	750
Cash and cash equivalents		**3,245**	8,692	5,067
Assets classified as held for sale	3.2	**1,861**	365	1,713
Total assets		**67,270**	72,818	68,803

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Notes	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Cash flows from operating activities				
Cash utilised by operations	15	**(1,551)**	(310)	(3,716)
Taxation paid		**(103)**	(30)	(54)
Net cash flows from operating activities		**(1,654)**	(340)	(3,770)
Cash flows from investing activities				
Proceeds from disposal of businesses, net of cash disposed of		**–**	21	332
Net cash flows from investing activities		**–**	21	332
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses	9	**2**	–	1
Proceeds from issuing shares in subsidiaries to non-controlling interests	10	**10**	33	82
Ordinary share dividends paid	8	**(60)**	(60)	(120)
Coupon paid on Perpetual Reset Capital Securities	10.1	**(20)**	(26)	(26)
Cash settlement of Perpetual Reset Capital Securities	10.1	**(3)**	–	–
Fees associated with the issuance of subordinated notes	13	**(3)**	–	–
Dividends paid to non-controlling interests	10	**(11)**	(12)	(22)
Repayment of policyholder borrowings		**(94)**	(15)	(35)
Repayment of shareholder borrowings		**(60)**	(83)	(1,769)
Proceeds from new policyholder borrowings, net of associated expenses		**99**	–	–
Proceeds from new shareholder borrowings, net of associated expenses		**–**	–	1,184
Interest paid on policyholder borrowings		**(3)**	(4)	(17)
Interest paid on shareholder borrowings		**(25)**	(48)	(67)
Net cash flows from financing activities		**(168)**	(215)	(789)
Net decrease in cash and cash equivalents		**(1,822)**	(534)	(4,227)
Cash and cash equivalents at the beginning of the period		**5,067**	9,294	9,294
Cash and cash equivalents at the end of the period		**3,245**	8,760	5,067

Separate disclosure of the cash flows relating to discontinued operations is provided in note 3.1.

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2015

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

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2014

	Share capital (note 9) £m	Share premium £m	Shares held by employee benefit trust and Group entities £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 10) £m	Total £m
At 1 January 2014	–	1,097	(13)	93	732	1,909	778	2,687
Profit for the period	–	–	–	–	144	144	47	191
Other comprehensive (expense)/income for the period	–	–	–	(8)	79	71	–	71
Total comprehensive (expense)/income for the period	–	–	–	(8)	223	215	47	262
Dividends paid on ordinary shares	–	(60)	–	–	–	(60)	–	(60)
Dividends paid on shares held by the employee benefit trust and Group entities	–	1	–	–	–	1	–	1
Dividends paid to non-controlling interests	–	–	–	–	–	–	(12)	(12)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	(21)	(21)
Credit to equity for equity-settled share based payments	–	–	–	–	3	3	–	3
Shares subscribed for by non-controlling interests	–	–	–	–	–	–	33	33
Shares distributed by employee benefit trust	–	–	7	–	(7)	–	–	–
Shares acquired by employee benefit trust	–	–	(8)	–	–	(8)	–	(8)
At 30 June 2014	–	1,038	(14)	85	951	2,060	825	2,885

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital (note 9) £m	Share premium £m	Shares held by employee benefit trust and Group entities £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 10) £m	Total £m
At 1 January 2014	–	1,097	(13)	93	732	1,909	778	2,687
Profit for the period	–	–	–	–	310	310	96	406
Other comprehensive income for the period	–	–	–	10	251	261	–	261
Total comprehensive income for the period	–	–	–	10	561	571	96	667
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	1	–	1
Dividends paid on ordinary shares	–	(120)	–	–	–	(120)	–	(120)
Dividends paid on shares held by the employee benefit trust and Group entities	–	1	–	–	–	1	–	1
Dividends paid to non-controlling interests	–	–	–	–	–	–	(22)	(22)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	(21)	(21)
Credit to equity for equity-settled share based payments	–	–	–	–	7	7	–	7
Shares subscribed for by non-controlling interests	–	–	–	–	–	–	82	82
Shares distributed by employee benefit trust	–	–	10	–	(10)	–	–	–
Shares acquired by employee benefit trust	–	–	(8)	–	–	(8)	–	(8)
Shares sold by Group entities	–	–	3	–	1	4	–	4
At 31 December 2014	–	979	(8)	103	1,291	2,365	913	3,278

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 2015 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 23 to 51 and were authorised by the Board of Directors for issue on 19 August 2015. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young LLP and their review report appears on page 22.

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 2014 consolidated financial statements except for the adoption of new standards and interpretations effective from 1 January 2015 as referred to below.

The interim financial statements do not include all the information and disclosures required in the 2014 consolidated financial statements, and should be read in conjunction with the Group's 2014 Annual Report and Accounts.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2015:

- Annual Improvements 2010 – 2012 cycle; and
- Annual Improvements 2011 – 2013 cycle.

These standards, interpretations or amendments that have been applied for the first time in 2015 do not impact the 2015 interim financial statements, and are not expected to have a significant impact on the 2015 consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

2. CHANGES IN ACCOUNTING POLICIES AND PRESENTATIONAL CHANGES

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the 2014 consolidated financial statements except as noted below.

The Group's accounting policy has previously been to carry loans and receivables at their amortised cost. During the period, a portfolio of loans was acquired that management determined should be designated at fair value through profit or loss. Such a designation was deemed reflective of the manner in which the financial assets are managed and reduces a measurement inconsistency that would otherwise arise with regard to the insurance liabilities that the assets are backing. As a result, these assets are stated in the condensed statement of consolidated financial position at their fair value. All other loans and receivables continue to be carried at their amortised cost.

In respect of the half year ended 30 June 2014, a presentational change has been made to fees and net investment income within the condensed consolidated income statement to remove the impact of a gross-up of those line items for asset management fee rebates received by the Group's Life companies. The impact of the adjustment is to reduce fees by £9 million and increase net investment income by an equivalent amount. There is no impact on the result for the period.

3. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

This note provides details of discontinued operations and assets and liabilities held for sale at the period end.

3.1 DISCONTINUED OPERATIONS

On 25 March 2014, the Group and Standard Life Investments (Holdings) Limited ('Standard Life Investments') signed a disposal agreement under which Standard Life Investments agreed to acquire the entire issued share capital of Ignis in return for gross cash consideration of £390 million. The divestment was completed on 1 July 2014. A post completion payment of £6 million, calculated in accordance with the sale and purchase agreement, was paid to Standard Life Investments on 24 September 2014. The business has been included in the Ignis operating segment at 30 June 2014 and 31 December 2014. The results of Ignis are as follows:

3. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE CONTINUED

3.1 DISCONTINUED OPERATIONS CONTINUED

3.1.1 Results of discontinued operations

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Fees	–	26	26
Net investment income	–	(6)	(6)
Total revenue	–	20	20
Amortisation of customer relationships	–	–	–
Administrative expenses	–	(47)	(47)
Total operating expenses	–	(47)	(47)
Loss before tax	–	(27)	(27)
Attributable tax credit	–	9	9
	–	(18)	(18)
Gain on disposal of discontinued operations	–	–	107
Attributable tax credit	–	–	3
	–	–	110
(Loss)/profit for the period from discontinued operations	–	(18)	92

The loss before tax for discontinued operations for half year ended 30 June 2014 and year ended 31 December 2014 excludes intra-group fee income of £38 million. This intra-group fee income represents the difference between the loss before tax for the period from discontinued operations and the Ignis segmental result before tax attributable to owners result shown in note 4.1.

The (loss)/profit for the period from discontinued operations was attributable entirely to the owners of the parent.

The gain on disposal for the period from discontinued operations of £110 million, recognised in the results for the year ended 31 December 2014, comprised net consideration received of £384 million less net assets and liabilities disposed of £254 million, transaction costs and tax.

3.1.2 Cash flows generated by discontinued operations

The net cash flows generated by Ignis (including cash flows relating to the divestment) are as follows:

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Cash flows from operating activities	–	31	31
Cash flows from investing activities	–	–	311
Cash flows from financing activities	–	(29)	(29)
Net cash inflow	–	2	313

Cash flows from investing activities of £311 million comprised net consideration received of £384 million less attributable transaction costs of £5 million, less cash and cash equivalents disposed of £68 million.

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 2015 relate to the anticipated Part VII transfer of a portfolio of annuity liabilities to Guardian Assurance Limited ('Guardian') (see note 3.3) and the agreement to sell Scottish Mutual International (see note 3.4). The balances as at 30 June 2014 relate to Ignis (see note 3.1) and the balances as at 31 December 2014 relate to the anticipated Part VII transfer to Guardian.

	Carrying amount 30 Jun 2015 £m	Carrying amount 30 Jun 2014 £m	Carrying amount 31 Dec 2014 £m
Assets classified as held for sale:			
Goodwill	**–**	57	–
Customer relationships and other intangibles	**–**	136	–
Financial assets	**177**	37	–
Reinsurer's share of insurance contract liabilities	**1,630**	–	1,713
Property, plant and equipment	**–**	8	–
Cash and cash equivalents	**51**	68	–
Other assets	**3**	59	–
	1,861	365	1,713
Liabilities classified as held for sale:			
Insurance contract liabilities	**1,893**	–	1,776
Deferred tax liabilities	**–**	27	–
Payables related to direct insurance contracts	**1**	–	–
Provisions	**–**	23	–
Other liabilities	**1**	61	–
	1,895	111	1,776

3.3 ANNUITY LIABILITIES TRANSFER

On 31 July 2014, the Group entered into a reinsurance agreement, effective from 1 January 2014 to reinsure certain portfolios of the Group's annuity liabilities to Guardian in exchange for the transfer of financial assets of £1.7 billion. The annuity in-payment liabilities are currently held in the Group's with-profit funds. It is highly probable that the reinsurance agreement will be replaced by a formal scheme under Part VII of the Financial Services and Market Act 2000 to transfer the annuity liabilities to Guardian. Management's expectations are that the necessary approvals will be in place during the second half of 2016. Both parties remain committed to fulfilling their contractual obligations in relation to the Part VII. Accordingly the assets and liabilities to be transferred have been classified as held for sale.

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

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

3.4 SCOTTISH MUTUAL INTERNATIONAL ('SMI')

On 29 June 2015, the Group and Harcourt Life Assurance Company Limited ('HLAC'), a subsidiary of Life Company Consolidation Group, signed a disposal agreement under which HLAC agreed to acquire the entire issued share capital of SMI in return for gross cash consideration of £14 million and a pre-completion return of capital by SMI. Assets and liabilities classified as held for sale are £231 million and £204 million respectively, excluding £12 million of recoverables under an intercompany reinsurance agreement that is eliminated on consolidation. Subject to the satisfaction of certain conditions the disposal is expected to be completed by the end of the year.

4. SEGMENTAL ANALYSIS

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

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

For management purposes, the Group is organised into business units based on their products and services and had only the Phoenix Life operating segment during the reporting period. In the comparative period, the Group had two operating segments as follows:

- Phoenix Life – this segment manages a range of whole life, term assurance and pension products; and
- Ignis – this segment provides investment management services to the life companies within the Group and to third parties, covering both retail and institutional investors. This segment was disposed of effective 1 July 2014 (see note 3.1).

4. SEGMENTAL ANALYSIS CONTINUED

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.

4.1 SEGMENTAL RESULT

Half year ended 30 June 2015

	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	387	–	387
Fees	47	–	47
Net investment income	364	8	372
Other operating income	4	–	4
Net income	802	8	810
Net policyholder claims and benefits incurred	(277)	–	(277)
Impairment and amortisation:			
Amortisation of acquired in-force business	(45)	–	(45)
Amortisation of customer relationships	(7)	–	(7)
	(52)	–	(52)
Other operating expenses:			
Recurring	(348)	(17)	(365)
Non-recurring	2	(1)	1
	(346)	(18)	(364)
Total operating expenses	(675)	(18)	(693)
Profit/(loss) before finance costs and tax	127	(10)	117
Finance costs	(32)	(37)	(69)
Profit/(loss) before tax	95	(47)	48
Tax attributable to policyholders' returns	31	–	31
Segmental result before the tax attributable to owners	126	(47)	79

Half year ended 30 June 2014

	Phoenix Life £m	Ignis £m	Unallocated Group £m	Eliminations £m	Discontinued operations eliminations £m	Total £m
Net premiums written from:						
External customers	482	–	–	–	–	482
Fees from:						
External customers	50	26	–	–	(26)	50
Other segment	–	38	–	(38)	–	–
	50	64	–	(38)	(26)	50
Net investment income:						
Recurring	2,044	–	6	–	–	2,050
Non-recurring	–	(6)	2	–	6	2
	2,044	(6)	8	–	6	2,052
Other operating income:						
Recurring	5	–	–	–	–	5
Gain on transfer of business:						
Non-recurring	–	–	4	–	–	4
Net income	2,581	58	12	(38)	(20)	2,593
Net policyholder claims and benefits incurred:						
Recurring	(1,730)	–	–	–	–	(1,730)
Impairment and amortisation:						
Amortisation of acquired in-force business	(53)	–	–	–	–	(53)
Amortisation of customer relationships	(7)	–	–	–	–	(7)
	(60)	–	–	–	–	(60)
Other operating expenses:						
Recurring	(464)	(47)	(14)	38	47	(440)
Non-recurring	(57)	–	66	–	–	9
	(521)	(47)	52	38	47	(431)
Total operating expenses	(2,311)	(47)	52	38	47	(2,221)
Profit before finance costs and tax	270	11	64	–	27	372
Finance costs	(45)	–	(37)	–	–	(82)
Profit before tax	225	11	27	–	27	290
Tax attributable to policyholders' returns	(32)	–	–	–	–	(32)
Segmental result before the tax attributable to owners	193	11	27	–	27	258

4. SEGMENTAL ANALYSIS CONTINUED

4.1 SEGMENTAL RESULT CONTINUED

Year ended 31 December 2014

	Phoenix Life £m	Ignis £m	Unallocated Group £m	Eliminations £m	Discontinued operations eliminations £m	Total £m
Net premiums written from:						
External customers	(811)	–	–	–	–	(811)
Fees from:						
External customers	94	26	–	–	(26)	94
Other segment	–	38	–	(38)	–	–
	94	64	–	(38)	(26)	94
Net investment income:						
Recurring	6,027	–	5	–	–	6,032
Non-recurring	–	(6)	2	–	6	2
	6,027	(6)	7	–	6	6,034
Other operating income:						
Recurring	9	–	–	–	–	9
Gain on transfer of business:						
Non-recurring	(18)	–	129	–	(107)	4
Net income	5,301	58	136	(38)	(127)	5,330
Net policyholder claims and benefits incurred:						
Recurring	(3,733)	–	–	–	–	(3,733)
Impairment and amortisation:						
Amortisation of acquired in-force business	(98)	–	–	–	–	(98)
Amortisation of customer relationships	(15)	–	–	–	–	(15)
	(113)	–	–	–	–	(113)
Other operating expenses:						
Recurring	(888)	(47)	(32)	38	47	(882)
Non-recurring	(38)	–	57	–	–	19
	(926)	(47)	25	38	47	(863)
Total operating expenses	(4,772)	(47)	25	38	47	(4,709)
Profit/(loss) before finance costs and tax	529	11	161	–	(80)	621
Finance costs	(91)	–	(65)	–	–	(156)
Profit/(loss) before tax	438	11	96	–	(80)	465
Tax attributable to policyholders' returns	(129)	–	–	–	–	(129)
Segmental result before the tax attributable to owners	309	11	96	–	(80)	336

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

Half year ended 30 June 2015

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

Non-recurring items include:

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

Half year ended 30 June 2014

	Phoenix Life £m	Ignis £m	Unallocated Group £m	Total £m
Operating profit/(loss) before adjusting items	256	17	(7)	266
Investment return variances and economic assumption changes on long-term business	59	–	–	59
Variance on owners' funds	1	–	(1)	–
Amortisation of acquired in-force business	(48)	–	–	(48)
Amortisation of customer relationships	(7)	–	–	(7)
Non-recurring items	(57)	(6)	72	9
Finance costs attributable to owners	(11)	–	(37)	(48)
Segment result before the tax attributable to owners	193	11	27	231
Adjust for:				
Loss before the tax attributable to owners from discontinued operations (see note 3.1)				27
Profit before tax attributable to owners from continuing operations				258

Non-recurring items include:

- income received in relation to the close-out of the PGL Pension Scheme longevity agreement with the with-profit funds of £68 million;
- capitalised VAT costs on future investment management expenses arising as a result of the divestment of Ignis of £27 million;
- costs associated with external regulatory changes with regard to the cap on workplace pension charges of £14 million;
- corporate project costs of £11 million; and
- net other one-off items totalling a cost of £7 million.

4. SEGMENTAL ANALYSIS CONTINUED

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

Year ended 31 December 2014

	Phoenix Life £m	Ignis £m	Unallocated Group £m	Total £m
Operating profit/(loss) before adjusting items	487	17	(21)	483
Investment return variances and economic assumption changes on long-term business	12	–	–	12
Variance on owners' funds	(8)	–	(6)	(14)
Amortisation of acquired in-force business	(88)	–	–	(88)
Amortisation of customer relationships	(15)	–	–	(15)
Non-recurring items	(56)	(6)	188	126
Finance costs attributable to owners	(23)	–	(65)	(88)
Segment result before the tax attributable to owners	309	11	96	416

Adjust for:	
Profit before the tax attributable to owners from discontinued operations (see note 3.1)	(80)
Profit before tax attributable to owners from continuing operations	336

Non-recurring items include:

- income received in relation to the close-out of the PGL Pension Scheme longevity agreement with the with-profit funds of £68 million;
- the profit arising as a result of the divestment of Ignis of £107 million (see note 3.1);
- costs associated with external regulatory changes, including the cap on workplace pension charges of £17 million;
- corporate project costs of £15 million; and
- net other one-off items (including Solvency II implementation and systems transformation costs) totalling a cost of £17 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. This note explains the methodology behind this.

5.1 LIFE ASSURANCE BUSINESS

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

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

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

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

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Investment return variances and economic assumption changes on long-term business	**44**	59	12

Positive investment return variances and economic assumption changes on long-term business of £44 million in the first half of 2015 (half year ended 30 June 2014: £59 million; year ended 31 December 2014: £12 million) include the minority share of the result of the consolidated UKCPT property investment structure of £26 million (half year ended 30 June 2014: £37 million; year ended 31 December 2014: £75 million). The remaining positive variance of £18 million reflects a gain on the purchase of a portfolio of equity release mortgages arising from the yield uplift on assets available to back annuity liabilities and the positive impact of increasing yields on short asset positions held relative to the longer term IFRS basis liabilities.

5.2 OWNERS' FUNDS

For non-long-term business including owners' funds, the total investment income, including fair value gains, is analysed between a calculated long-term return and short-term fluctuations.

The variances excluded from operating profit in relation to owners' funds are as follows:

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Variance on owners' funds of:			
Subsidiary undertakings	**(4)**	(4)	(19)
The Company	**–**	4	5
	(4)	–	(14)

The negative variance on owners' funds of subsidiary undertakings of £4 million (30 June 2014: £4 million; 31 December 2014: £19 million) is principally driven by negative investment return variances on investments and hedging positions held by the shareholder funds and holding companies.

5.3 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 is defined as the annualised return on the FTSE UK Gilt Index plus 10bps. The same margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties.

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

	Half year ended 30 Jun 2015 %	Half year ended 30 Jun 2014 %	Year ended 31 Dec 2014 %
Equities	**5.3**	6.6	6.6
Properties	**4.3**	5.6	5.6
Gilts (15 year gilt)	**2.3**	3.6	3.6
Other fixed interest	**3.3**	4.6	4.6

6. TAX (CREDIT)/CHARGE

6.1 CURRENT PERIOD TAX (CREDIT)/CHARGE

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Current tax:			
UK corporation tax	**7**	74	120
Overseas tax	**6**	14	18
	13	88	138
Adjustment in respect of prior years	**(10)**	(1)	(11)
Total current tax charge	**3**	87	127
Deferred tax:			
Origination and reversal of temporary differences	**(33)**	(7)	28
Change in the rate of UK corporation tax	**–**	1	(2)
Movement in unrecognised deferred tax	**–**	–	(2)
Total deferred tax (credit)/charge	**(33)**	(6)	24
Total tax (credit)/charge	**(30)**	81	151
Attributable to:			
– Policyholders	**(31)**	32	129
– Owners	**1**	49	22
Total tax (credit)/charge	**(30)**	81	151

6. TAX (CREDIT)/CHARGE CONTINUED

6.1 CURRENT PERIOD TAX (CREDIT)/CHARGE CONTINUED

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax (credit)/charge attributable to policyholder earnings was £(31) million (half year ended 30 June 2014: £32 million; year ended 31 December 2014: £129 million).

The tax (credit)/charge is from continuing operations. The tax credit for the prior periods from discontinued operations is shown in note 3.1.

6.2 TAX CREDITED TO OTHER COMPREHENSIVE INCOME

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Current tax credit on share schemes	**–**	–	(2)
Deferred tax credit on defined benefit schemes	**–**	(8)	(9)
Deferred tax credit on share schemes	**(1)**	–	–
	(1)	(8)	(11)

6.3 RECONCILIATION OF TAX (CREDIT)/CHARGE

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Profit before tax	**48**	290	465
Policyholder tax credit/(charge)	**31**	(32)	(129)
Profit before the tax attributable to owners	**79**	258	336
Tax charge at standard UK[1] rate of 20.25% (30 June 2014: 21.5%; 31 December 2014: 21.5%)	**16**	56	72
Non-taxable income and gains	**(12)**	(1)	(6)
Disallowable expenses	**3**	3	7
Adjustment to shareholders' tax charge in respect of prior periods	**5**	(1)	(16)
Movement on acquired in-force amortisation at less than 20.25% (30 June 2014: 21.5%; 31 December 2014: 21.5%)	**1**	1	2
Profits taxed at rates other than 20.25% (30 June 2014: 21.5%; 31 December 2014: 21.5%)	**(10)**	(5)	(21)
Recognition of previously unrecognised deferred tax asset	**(3)**	–	(19)
Deferred tax rate change	**–**	–	(7)
Temporary differences not valued	**–**	(5)	4
Other	**1**	1	6
Owners' tax charge	**1**	49	22
Policyholder tax (credit)/charge	**(31)**	32	129
Total tax (credit)/charge for the period	**(30)**	81	151

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

The Finance Act 2014 set the rate of corporation tax at 20% from 1 April 2015. Consequently, a rate of 20% has been used for the purposes of providing for deferred tax in these interim financial statements.

The Summer Budget 2015 introduced various changes that, when substantively enacted, would impact the valuation of deferred tax in these interim financial statements. Further reductions to the rate of corporation tax, to 19% in April 2017 and 18% from April 2020 have been announced and will be introduced by future legislation. In addition, changes have been proposed that would impact the valuation of deferred tax assets in relation to certain brought forward losses. The net impact of these changes is expected to be immaterial.

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 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	**18**	46	39
Excess expenses and deferred acquisition costs	**–**	1	–
Provisions and other temporary differences	**6**	8	6
Deferred tax assets not recognised in capital losses[1]	**114**	119	116

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

7. EARNINGS PER SHARE

The earnings/(loss) per share is calculated by reference to the profit/(loss) attributable to owners of the parent divided by the weighted average numbers of shares in issue during each period.

7.1 BASIC EARNINGS PER SHARE

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

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Profit for the period	**78**	191	406
Share of result attributable to non-controlling interests	**(27)**	(47)	(96)
Profit attributable to owners of the parent	**51**	144	310
Analysed as:			
Profit attributable to owners of the parent from continuing operations	**51**	162	218
(Loss)/profit attributable to owners of the parent from discontinued operations	**–**	(18)	92

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

	Half year ended 30 Jun 2015 No. million	Half year ended 30 Jun 2014 No. million	Year ended 31 Dec 2014 No. million
Issued ordinary shares at beginning of the period	**225**	225	225
Effect of ordinary shares issued	**–**	1	1
Own shares held by employee trust and Group entities	**(1)**	(1)	(1)
Weighted average number of ordinary shares	**224**	225	225

Basic earnings per share is as follows:

	Half year ended 30 Jun 2015 pence	Half year ended 30 Jun 2014 pence	Year ended 31 Dec 2014 pence
Basic earnings per share from continuing operations	**22.7p**	72.3p	96.7p
Basic (loss)/earnings per share from discontinued operations	**–**	(8.2)p	41.0p
Total basic earnings per share	**22.7p**	64.1p	137.7p

7.2 DILUTED EARNINGS PER SHARE

The result attributable to owners of the parent used in the calculation of diluted earnings/(loss) per share is the same as that used in the basic earnings per share calculation in 7.1 above. The diluted weighted average number of ordinary shares outstanding during the period is 225 million (half year ended 30 June 2014: 225 million; year ended 31 December 2014: 225 million). The Group's deferred bonus share scheme and sharesave share-based schemes increased the weighted average number of shares on a diluted basis by 637,830 for the half year ended 30 June 2015 (half year ended 30 June 2014: 85,037; year ended 31 December 2014: 465,256).

7. EARNINGS PER SHARE CONTINUED

7.2 DILUTED EARNINGS PER SHARE CONTINUED

Diluted earnings per share is as follows:

	Half year ended 30 Jun 2015 pence	Half year ended 30 Jun 2014 pence	Year ended 31 Dec 2014 pence
Diluted earnings per share from continuing operations	**22.7p**	72.3p	96.5p
Diluted (loss)/earnings per share from discontinued operations	**–**	(8.2)p	41.0p
Total diluted earnings per share	**22.7p**	64.1p	137.5p

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

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

8. DIVIDENDS ON ORDINARY SHARES

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Dividend declared and paid in 2015 at 26.7p per share (half year ended 30 June 2014: 26.7p; year ended 31 December 2014: 53.4p)	**60**	60	120

On 17 March 2015, the Board recommended a dividend of 26.7p per share in respect of the year ended 31 December 2014. The dividend was approved at the Company's Annual General Meeting, which was held on 23 April 2015. The dividend was settled on 27 April 2015.

9. SHARE CAPITAL

	30 Jun 2015 £	30 Jun 2014 £	31 Dec 2014 £
Authorised:			
410 million (30 June 2014: 410 million; 31 December 2014: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750	31,750
Issued and fully paid:			
225.3 million (30 June 2014: 224.9 million; 31 December 2014: 225.1 million) ordinary shares of €0.0001 each	**18,457**	18,421	18,439

Movements in share capital during the period:

	Number	**£**
Shares in issue at 1 January 2015	**225,090,284**	**18,439**
Other ordinary shares issued in the period	**256,156**	**18**
Shares in issue at 30 June 2015	**225,346,440**	**18,457**

	Number	£
Shares in issue at 1 January 2014	224,818,301	18,418
Other ordinary shares issued in the period	38,860	3
Shares in issue at 30 June 2014	224,857,161	18,421
Other ordinary shares issued in the period	233,123	18
Shares in issue at 31 December 2014	225,090,284	18,439

During the year, the Company issued 256,156 shares at a total premium of £2 million in order to satisfy its obligation to employees under the Group's share schemes.

10. NON-CONTROLLING INTERESTS

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

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January 2014	408	370	778
Profit for the period	10	37	47
Dividends paid	–	(12)	(12)
Coupons paid, net of tax relief	(21)	–	(21)
Shares in subsidiaries subscribed for by non-controlling interests	–	33	33
At 30 June 2014	397	428	825
Profit for the period	11	38	49
Dividends paid	–	(10)	(10)
Shares in subsidiaries subscribed for by non-controlling interests	–	49	49
At 31 December 2014	408	505	913

10.1 PERPETUAL RESET CAPITAL SECURITIES

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

10.2 UK COMMERCIAL PROPERTY TRUST LIMITED

UK Commercial Property Trust Limited is a property investment subsidiary 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. The Group holds 52% as at 30 June 2015 (half year ended 30 June 2014: 56%; year ended 31 December 2014: 53%) of the issued share capital of UKCPT.

11. PENSION SCHEMES

The condensed statement of consolidated financial position incorporates the pension scheme assets of the PGL Pension Scheme and the Pearl Group Staff Pension Scheme as at 30 June 2015. The pension scheme asset of the PGL Pension Scheme amounted to £363 million (30 June 2014: £276 million, 31 December 2014: £370 million); this has been adjusted by £23 million (30 June 2014: £22 million, 31 December 2014: £23 million) to eliminate on consolidation the carrying value of insurance policies effected by the PGL Pension Scheme with the Group. The pension scheme asset/(liability) of the Pearl Group Staff Pension Scheme amounted to £33 million (30 June 2014: £(98) million, 31 December 2014: £56 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.

12. LIABILITIES UNDER INSURANCE CONTRACTS – ASSUMPTIONS

12.1 VALUATION OF PARTICIPATING INSURANCE AND INVESTMENT CONTRACTS

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

12.2 VALUATION OF NON-PARTICIPATING INSURANCE CONTRACTS

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

12.3 PROCESS USED TO DETERMINE ASSUMPTIONS

For participating business in realistic basis companies 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 other business, demographic assumptions are derived by adding a prudent margin to best estimate assumptions. Economic assumptions are prudent estimates of the returns expected to be achieved on the assets backing the liabilities.

During the period, longevity improvement assumptions have been updated to reflect the latest available published tables, increasing insurance liabilities by £10 million in the period.

In the prior period, persistency assumptions were updated to reflect the anticipated impact of pensions reforms announced in the March 2014 Budget, which was expected to reduce the cost of meeting valuable policyholder guarantees. This change reduced insurance liabilities by £12 million.

	Increase in insurance liabilities 30 Jun 2015 £m	Decrease in insurance liabilities 30 Jun 2014 £m	Decrease in insurance liabilities 31 Dec 2014 £m
Change in longevity assumptions	**10**	–	(14)
Change in persistency assumptions	**–**	(12)	(13)

13. BORROWINGS

	30 Jun 2015 £m	30 Jun 2014 £m	31 Dec 2014 £m
Carrying value			
Limited recourse bonds 2022 7.59%	**74**	88	73
Property reversions loan	**173**	185	184
£80 million facility agreement	**–**	80	80
£150 million term facility	**148**	150	150
£100 million facility agreement	**99**	–	–
Total policyholder borrowings	**494**	503	487
£200 million 7.25% unsecured subordinated loan	**153**	155	149
£300 million senior unsecured bond	**298**	–	298
£450 million revolving credit facility	**442**	–	441
£450 million amortising term loan	**328**	–	387
£428 million subordinated notes	**393**	–	–
£2,260 million syndicated loan	**–**	1,122	–
£100 million PIK notes and facility	**–**	124	–
£75 million secured loan note	**–**	77	–
£425 million loan facility	**–**	304	–
Total shareholder borrowings	**1,614**	1,782	1,275
Total borrowings	**2,108**	2,285	1,762

On 23 January 2015, PGH Capital Limited issued £428 million of subordinated notes due 2025 at a coupon of 6.625%. Upon exchange, £32 million of these notes were held and continued to be held as at 30 June 2015 by Group companies. Fees associated with these notes of £3 million have been deferred and amortised over the life of the notes in the condensed statement of consolidated financial position.

On 2 April 2015, UK Commercial Property Finance Holdings Limited, a wholly owned subsidiary of UKCPT, entered into a new £100 million 12 year fixed rate term loan facility agreement with Cornerstone Real Estate Advisors Europe LLP. This facility accrues interest at a rate of 3.03% per annum. The lender holds security over the assets of UK Commercial Property Finance Holdings Limited, and further subsidiary of UKCPT. As at 30 June 2015, the facility was fully drawn down. This new facility was provided for the purpose of refinancing the £80 million revolving loan facility agreement which was due for repayment on 19 April 2015.

On 8 April 2015, UKCPT amended the £150 million investment term loan facility agreement, extending the repayment date to April 2020. As at 30 June 2015, the facility was fully drawn down. This facility accrues interest at LIBOR plus 1.50% per annum. The amendment includes the provision of a five year additional revolving credit facility of up to £50 million. As at 30 June 2015, the additional facility had not been drawn down.

On 30 June 2015, a £60 million repayment was made in respect of targeted and mandatory repayments due on the £450 million amortising term loan.

14. FINANCIAL INSTRUMENTS

14.1 FAIR VALUES

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2015:

Financial assets

	30 Jun 2015		30 Jun 2014		31 Dec 2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Loans and receivables at amortised cost	190	190	1,560	1,568	196	196
Financial assets at fair value through profit or loss:						
Held for trading – derivatives	1,660	1,660	1,349	1,349	2,558	2,558
Designated upon initial recognition:						
Loans and receivables	273	273	–	–	–	–
Equities	12,830	12,830	13,869	13,869	13,168	13,168
Investment in joint ventures	138	138	118	118	133	133
Fixed and variable rate income securities	35,939	35,939	35,643	35,643	34,384	34,384
Collective investment schemes	3,703	3,703	2,475	2,475	3,583	3,583
	54,733	54,733	55,014	55,022	54,022	54,022
Less amounts classified as held for sale (note 3.2)	(177)	(177)	(37)	(37)	–	–
Total financial assets	54,556	54,556	54,977	54,985	54,022	54,022

Financial liabilities

	30 Jun 2015		30 Jun 2014		31 Dec 2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial liabilities measured at amortised cost:						
Borrowings	1,935	2,046	2,100	2,147	1,578	1,698
Obligations for repayment of collateral received[1]	818	–	5,324	–	954	–
Deposits received from reinsurers	385	385	384	384	408	408
Financial liabilities at fair value through profit or loss:						
Held for trading – derivatives	1,700	1,700	1,616	1,616	2,192	2,192
Designated upon initial recognition:						
Borrowings	173	173	185	185	184	184
Net asset value attributable to unitholders	5,218	5,218	5,431	5,431	4,659	4,659
Investment contract liabilities	8,250	8,250	8,508	8,508	8,451	8,451
Total financial liabilities	18,479	17,772	23,548	18,271	18,426	17,592

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

14. FINANCIAL INSTRUMENTS CONTINUED

14.2 FAIR VALUE HIERARCHY

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

Level 1 financial instruments

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

Level 2 financial instruments

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

Level 3 financial instruments

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

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

14.2.2 Fair value hierarchy of financial instruments measured at fair value
At 30 June 2015

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

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

At 30 June 2014

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	14	1,335	–	1,349
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	13,107	148	614	13,869
Investment in joint ventures	–	–	118	118
Fixed and variable rate income securities	25,119	9,586	938	35,643
Collective investment schemes	1,413	947	115	2,475
	39,639	10,681	1,785	52,105
Less amounts classified as held for sale (note 3.2)	(1)	(36)	–	(37)
Total financial assets at fair value	39,652	11,980	1,785	53,417

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	6	1,605	5	1,616
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	–	8,508	–	8,508
Borrowings	–	–	185	185
Net asset value attributable to unitholders	5,431	–	–	5,431
	5,431	8,508	185	14,124
Total financial liabilities at fair value	5,437	10,113	190	15,740

At 31 December 2014

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	18	2,540	–	2,558
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	12,315	149	704	13,168
Investment in joint ventures	–	–	133	133
Fixed and variable rate income securities	24,639	9,010	735	34,384
Collective investment schemes	2,579	923	81	3,583
	39,533	10,082	1,653	51,268
Total financial assets at fair value	39,551	12,622	1,653	53,826

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	40	2,151	1	2,192
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	–	8,451	–	8,451
Borrowings	–	–	184	184
Net asset value attributable to unitholders	4,659	–	–	4,659
	4,659	8,451	184	13,294
Total financial liabilities at fair value	4,699	10,602	185	15,486

14. FINANCIAL INSTRUMENTS CONTINUED

14.2 FAIR VALUE HIERARCHY CONTINUED

14.2.3 Level 3 financial instrument sensitivities

Included in Level 3 investments is a property investment structure with a value of £138 million within investment in joint ventures (30 June 2014: £118 million; 31 December 2014: £133 million). This investment has been valued by taking the fair value of the property within the structure, which has been independently valued, less the fair value of the debt within the structure. The valuation is sensitive to movements in yields on the underlying property portfolio.

An increase in yields of 25bps would reduce the value of the investment by £22 million (30 June 2014: £21 million; 31 December 2014: £23 million). A reduction in yields of 25bps would increase the value of the investment by £23 million (30 June 2014: £25 million; 31 December 2014: £25 million).

Level 3 investments in fixed and variable income securities include a property investment structure with a value of £41 million (30 June 2014: £29 million; 31 December 2014: £59 million). This investment was restructured during the year and inputs to the valuation have changed.

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

The valuation is most sensitive to a change in the credit spread on the debt investment, whereby an increase of 100bps would decrease the value by £3 million and a spread reduction of 100bps would increase the value by £4 million.

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

Debt securities categorised as Level 3 investments, with the exception of 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.

Included within fixed and variable rate securities are investments in local authority loans. These investments are valued using a simple calculation model taking a comparable UK Treasury stock and applying 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 2014: £1 million; 31 December 2014: £1 million) and a decrease of 25bps would increase the value by £1 million (30 June 2014: £1 million; 31 December 2014: £1 million).

Borrowings measured at fair value and categorised as Level 3 financial liabilities comprise the property reversion loans, measured using an internally developed model. The valuation is sensitive to increases/(decreases) in the fair value of relevant residential property reversions which would result in a higher/(lower) fair value of property reversion loans.

Included within loans and receivables are investments in equity release mortgages with a value of £273 million, acquired in January 2015. 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 sale proceeds from the property.

The valuation is most sensitive to movements in gilt curves whereby an increase of 100bps would decrease the value by £21 million and a decrease of 100bps would increase the value by £25 million.

14.2.4 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2015

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

At 30 June 2014

	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	86	539
Collective investment schemes	2	–

At 31 December 2014

	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	167	372
Collective investment schemes	2	–

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

The application of the Group's fair value hierarchy classification methodology at an individual security level with regard to bid-ask spreads on fixed and variable rate income securities have resulted in an overall net movement of financial assets from Level 2 to Level 1 in the period.

14.2.5 Movement in Level 3 financial instruments measured at fair value

At 30 June 2015

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

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

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

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

14. FINANCIAL INSTRUMENTS CONTINUED

14.2 FAIR VALUE HIERARCHY CONTINUED

At 30 June 2014

	At 1 January 2014 £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 2014 £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:								
Equities	628	18	28	(61)	1	–	614	9
Investment in joint ventures	125	(7)	–	–	–	–	118	–
Fixed and variable rate income securities	935	29	193	(202)	34	(51)	938	25
Collective investment schemes	116	8	–	(16)	7	–	115	6
Total financial assets	1,804	48	221	(279)	42	(51)	1,785	40

	At 1 January 2014 £m	Total 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 2014 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	3	2	–	–	–	–	5	(1)
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	186	14	–	(15)	–	–	185	(1)
Total financial liabilities	189	16	–	(15)	–	–	190	(2)

At 31 December 2014

	At 1 January 2014 £m	Total gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2014 £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:								
Equities	628	40	95	(59)	–	–	704	60
Investment in joint ventures	125	8	–	–	–	–	133	8
Fixed and variable rate income securities	935	57	427	(502)	8	(190)	735	19
Collective investment schemes	116	5	5	(45)	–	–	81	5
Total financial assets	1,804	110	527	(606)	8	(190)	1,653	92

	At 1 January 2014 £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 31 December 2014 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	3	(2)	–	–	–	–	1	1
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	186	22	–	(24)	–	–	184	22
Net asset value attributable to unitholders	–	–	–	–	–	–	–	–
Total financial liabilities	189	20	–	(24)	–	–	185	23

15. CASH FLOWS FROM OPERATING ACTIVITIES

	Half year ended 30 Jun 2015 £m	Half year ended 30 Jun 2014 £m	Year ended 31 Dec 2014 £m
Profit for the period before tax from continuing operations	**48**	290	465
Loss for the period before tax from discontinued operations	**–**	(27)	(27)
Profit for the period before tax	**48**	263	438
Non-cash movements in profit for the period before tax			
Fair value (gains)/losses on:			
Investment property	**(52)**	(120)	(200)
Financial assets	**744**	(670)	(3,494)
Change in fair value of borrowings	**7**	20	19
Amortisation of intangible assets	**52**	60	113
Change in present value of future profits	**4**	8	9
Change in unallocated surplus	**(40)**	19	11
Share-based payment charge	**2**	3	7
Interest expense on borrowings	**69**	82	156
Net interest income on Group defined benefit pension scheme asset/liability	**(8)**	(6)	(4)
Pension scheme administration expenses	**1**	–	3
Gain on sale of BAGI	**–**	(4)	(4)
Gain on divestment of Ignis	**–**	–	(107)
(Increase)/decrease in investment assets	**(1,125)**	2,073	5,556
Decrease/(increase) in reinsurance assets	**207**	(4)	43
(Decrease)/increase in insurance contract and investment contract liabilities	**(1,916)**	(133)	37
(Decrease)/increase in deposits received from reinsurers	**(23)**	(1)	23
Decrease in obligation for repayment of collateral received	**(136)**	(1,961)	(6,330)
Net decrease in working capital	**615**	61	8
Cash utilised by operations	**(1,551)**	(310)	(3,716)

Cash flows from discontinued operations are disclosed in note 3.1.

16. RELATED PARTY TRANSACTIONS

The nature of the related party transactions of the Group has not changed from those referred to in the Group's consolidated financial statements for the year ended 31 December 2014.

There were no transactions with related parties during the six months ended 30 June 2015, which have had a material effect on the results or financial position of the Group.

17. CONTINGENT LIABILITIES

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

18. EVENTS AFTER THE REPORTING PERIOD

On 19 August 2015, the Board declared an interim dividend per share of 26.7p for the half year ended 30 June 2015 (30 June 2014: 26.7p). The cost of this dividend has not been recognised as a liability in the interim financial statements for the period to 30 June 2015 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; the assets held by the non-controlling interest in consolidated collective investment schemes and the UK Commercial Property Trust; 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 2015

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	1,941	726	3,430	1,185	7,282
Debt securities – gilts	1,544	2,430	8,413	665	13,052
Debt securities – bonds	5,832	1,648	6,223	713	14,416
Equity securities	281	58	5,454	7,656	13,449
Property investments	222	64	993	354	1,633
Other investments[4]	357	(65)	623	40	955
At 30 June 2015	**10,177**	**4,861**	**25,136**	**10,613**	**50,787**
Cash and cash equivalents in Group holding companies					916
Cash and financial assets in other Group companies					152
Financial assets held by the non-controlling interest in the consolidated UKCPT					752
Financial assets held by the non-controlling interest in consolidated collective investment schemes					5,539
Total Group consolidated assets					58,146
Comprised of:					
Investment property					1,817
Financial assets					54,556
Cash and cash equivalents					3,245
Assets held for sale[5]					228
Derivative liabilities					(1,700)
					58,146

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 £273 million, policy loans of £11 million, other loans of £108 million, net derivative liabilities of £(40) million and other investments of £603 million.

5 Comprises financial assets of £177 million and cash and cash equivalents of £51 million.

31 December 2014

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	1,429	728	2,861	1,176	6,194
Debt securities – gilts	1,485	2,348	8,756	661	13,250
Debt securities – bonds	6,379	1,936	7,082	815	16,212
Equity securities	367	67	5,613	7,787	13,834
Property investments	191	67	997	346	1,601
Other investments[1]	402	(22)	806	–	1,186
At 31 December 2014	10,253	5,124	26,115	10,785	52,277
Cash and cash equivalents in Group holding companies					988
Cash and financial assets in other Group companies					116
Financial assets held by the non-controlling interest in the consolidated UKCPT					736
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,652
Adjustments on consolidation					(14)
Total Group consolidated assets					58,755
Comprised of:					
Investment property					1,858
Financial assets					54,022
Cash and cash equivalents					5,067
Derivative liabilities					(2,192)
					58,755

1 Includes policy loans of £12 million, other loans of £24 million, net derivative assets of £362 million and other investments of £788 million.

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

30 June 2015

Analysis by type of debt securities	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
Gilts	**1,544**	**2,430**	**8,413**	**665**	**13,052**
Other government and supranational[1]	**1,189**	**687**	**2,237**	**90**	**4,203**
Corporate – financial institutions	**1,877**	**362**	**1,718**	**106**	**4,063**
Corporate – other	**2,220**	**307**	**1,792**	**468**	**4,787**
Asset backed securities ('ABS')	**545**	**293**	**476**	**49**	**1,363**
At 30 June 2015	**7,375**	**4,079**	**14,636**	**1,378**	**27,468**

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

31 December 2014

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	1,485	2,348	8,756	661	13,250
Other government and supranational	1,196	753	2,432	116	4,497
Corporate – financial institutions	2,185	506	2,192	196	5,079
Corporate – other	2,394	346	1,889	445	5,074
Asset backed securities ('ABS')	604	331	569	58	1,562
At 31 December 2014	7,864	4,284	15,838	1,476	29,462

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

30 June 2015

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,706	2,513	8,755	673	13,647
Supranationals	566	275	698	18	1,557
USA	3	7	23	21	54
Germany	400	246	707	15	1,368
France	48	51	61	5	165
Netherlands	–	–	4	1	5
Italy	–	–	–	4	4
Spain	–	5	–	3	8
Other – non-Eurozone	8	9	367	15	399
Other – Eurozone	2	11	35	–	48
At 30 June 2015	**2,733**	**3,117**	**10,650**	**755**	**17,255**

31 December 2014

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,605	2,424	9,200	670	13,899
Supranationals	571	327	661	24	1,583
USA	3	7	119	26	155
Germany	425	263	787	22	1,497
France	49	50	59	5	163
Netherlands	–	–	4	2	6
Italy	–	–	–	4	4
Spain	–	5	–	3	8
Other – non-Eurozone	18	10	282	14	324
Other – Eurozone	10	15	76	7	108
At 31 December 2014	2,681	3,101	11,188	777	17,747

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

30 June 2015

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	974	255	888	74	2,191
USA	412	68	400	16	896
Germany	31	2	44	1	78
France	86	–	66	3	155
Netherlands	156	20	147	7	330
Italy	1	–	6	–	7
Ireland	28	2	23	–	53
Spain	1	–	10	–	11
Other – non-Eurozone	141	13	89	3	246
Other – Eurozone	47	2	45	2	96
At 30 June 2015	**1,877**	**362**	**1,718**	**106**	**4,063**

31 December 2014

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	1,181	301	959	95	2,536
USA	397	84	420	14	915
Germany	46	3	44	–	93
France	126	10	115	10	261
Netherlands	218	50	272	31	571
Italy	3	–	13	–	16
Spain	2	–	20	–	22
Other – non-Eurozone	177	54	305	45	581
Other – Eurozone	35	4	44	1	84
At 31 December 2014	2,185	506	2,192	196	5,079

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

30 June 2015

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,031	153	1,022	381	2,587
USA	409	66	195	16	686
Germany	168	36	118	18	340
France	191	27	164	22	404
Netherlands	45	2	38	4	89
Italy	39	1	50	2	92
Ireland	4	–	4	–	8
Greece	1	–	–	–	1
Spain	37	–	30	2	69
Other – non-Eurozone	197	20	119	14	350
Other – Eurozone	98	2	52	9	161
At 30 June 2015	**2,220**	**307**	**1,792**	**468**	**4,787**

31 December 2014

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	1,122	166	1,022	350	2,660
USA	436	71	233	16	756
Germany	191	51	151	21	414
France	227	32	197	23	479
Netherlands	51	2	35	5	93
Portugal	–	–	1	–	1
Italy	42	2	62	2	108
Greece	3	–	–	–	3
Spain	30	–	28	2	60
Other – non-Eurozone	188	21	96	14	319
Other – Eurozone	104	1	64	12	181
At 31 December 2014	2,394	346	1,889	445	5,074

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

30 June 2015

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	458	290	398	47	1,193
USA	29	–	5	–	34
Germany	–	–	24	–	24
France	–	1	–	–	1
Netherlands	12	–	21	2	35
Italy	–	–	12	–	12
Spain	–	–	1	–	1
Luxembourg	6	–	–	–	6
Other – non-Eurozone	40	2	15	–	57
At 30 June 2015	**545**	**293**	**476**	**49**	**1,363**

31 December 2014

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	516	323	487	56	1,382
USA	43	–	5	–	48
Germany	–	2	23	–	25
France	–	2	–	–	2
Netherlands	19	–	28	2	49
Italy	–	–	5	–	5
Ireland	–	–	8	–	8
Spain	–	–	2	–	2
Other – non-Eurozone	26	4	11	–	41
At 31 December 2014	604	331	569	58	1,562

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

30 June 2015

Credit rating analysis of debt portfolio	**Shareholder and non-profit funds £m**	**Participating supported £m**	**Participating non-supported £m**	**Unit-linked £m**	**Total £m**
AAA	**1,152**	**608**	**1,675**	**47**	**3,482**
AA	**2,253**	**2,966**	**9,303**	**705**	**15,227**
A	**1,508**	**342**	**1,138**	**98**	**3,086**
BBB	**1,817**	**141**	**1,906**	**187**	**4,051**
BB	**266**	**11**	**186**	**21**	**484**
B and below	**239**	**–**	**322**	**5**	**566**
Non-rated	**140**	**11**	**106**	**315**	**572**
At 30 June 2015	**7,375**	**4,079**	**14,636**	**1,378**	**27,468**

31 December 2014

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	1,168	699	1,769	62	3,698
AA	2,257	2,981	10,130	775	16,143
A	1,549	438	1,392	137	3,516
BBB	2,154	140	2,043	207	4,544
BB	284	3	129	17	433
B and below	284	–	191	2	477
Non-rated	168	23	184	276	651
At 31 December 2014	7,864	4,284	15,838	1,476	29,462

MCEV SUPPLEMENTARY INFORMATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE MARKET CONSISTENT EMBEDDED VALUE

When compliance with the CFO Forum MCEV principles published in June 2008 and amended in October 2009 is stated those principles require the Directors to prepare supplementary information in accordance with the MCEV principles and to disclose and provide reasons for any non-compliance with the principles.

The MCEV methodology adopted by the Group is in accordance with these MCEV principles with the exception of:

– risk-free rates have been defined as the annually compounded UK Government bond nominal spot curve plus ten basis points rather than as the swap rate curve;
– the value of the asset management (prior to its divestment on 1 July 2014) and the management service companies has been included on an IFRS basis; and
– no allowance for the costs of residual non-hedgeable risk has been made.

Further detail on these exceptions is included in note 1, basis of preparation.

Specifically, the Directors have:

– determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;
– made estimates that are reasonable and consistent; and
– provided additional disclosures when compliance with the specific requirements of the MCEV principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the Group's financial position and financial performance.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER
St Helier, Jersey
19 August 2015

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

AUDITOR'S REVIEW REPORT

INDEPENDENT REVIEW REPORT TO THE DIRECTORS OF PHOENIX GROUP HOLDINGS ON THE CONSOLIDATED PHOENIX GROUP MARKET CONSISTENT EMBEDDED VALUE ('MCEV')

We have been engaged by the Company to review the Consolidated Phoenix Group Holdings MCEV ('Phoenix Group Holdings MCEV') in the Interim Report for the half year ended 30 June 2015 which comprises the Summarised consolidated income statement – Group MCEV basis, MCEV earnings per ordinary share, Statement of consolidated comprehensive income – Group MCEV basis, Reconciliation of movement in equity – Group MCEV basis, Group MCEV analysis of earnings, Reconciliation of Group IFRS equity to MCEV net worth and the related notes on pages 66 to 73. 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 Phoenix Group Holdings MCEV.

Ernst & Young LLP have reported separately on the condensed consolidated financial statements of Phoenix Group Holdings prepared on an International Financial Reporting Standards ('IFRS') basis for the half year ended 30 June 2015. The information contained in the Phoenix Group Holdings MCEV should be read in conjunction with the condensed consolidated financial statements prepared on an IFRS basis.

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

DIRECTORS' RESPONSIBILITIES

The Phoenix Group Holdings MCEV in the interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Phoenix Group MCEV in accordance with the basis of preparation set out on pages 66 to 68.

OUR RESPONSIBILITY

Our responsibilities for the Phoenix Group Holdings MCEV are set out in our engagement letter with you dated 1 August 2014. We report to you our opinion as to whether the Phoenix Group Holdings MCEV in the Interim Report has been properly prepared, in all material respects, in accordance with the basis of preparation set out on pages 66 to 68.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and 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 Phoenix Group Holdings MCEV in the Interim Report for the half year ended 30 June 2015 has not been prepared, in all material respects, in accordance with the basis of preparation set out on pages 66 to 68.

Ernst & Young LLP

ERNST & YOUNG LLP
LONDON
19 August 2015

SUMMARISED CONSOLIDATED INCOME STATEMENT – GROUP MCEV BASIS

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m	Year ended 31 December 2014 £m
Life MCEV operating earnings	**89**	181	341
Management services operating profit	**15**	16	36
Ignis operating profit – discontinued operations	**–**	17	17
Group costs	**(13)**	(10)	(28)
Group MCEV operating earnings before tax	**91**	204	366
Economic variances on life business	**(13)**	(28)	54
Economic variances on non-life business	**(6)**	(37)	(64)
Other non-operating variances on life business	**15**	(132)	(94)
Non-recurring items on non-life business	**(23)**	59	317
Finance costs attributable to owners	**(56)**	(62)	(90)
Group MCEV earnings before tax	**8**	4	489
Tax on operating earnings	**(18)**	(42)	(78)
Tax on non-operating earnings	**–**	20	–
Total tax	**(18)**	(22)	(78)
Group MCEV earnings after tax	**(10)**	(18)	411
Analysed between:			
Group MCEV earnings after tax from continuing operations	**(10)**	–	429
Group MCEV earnings after tax from discontinued operations	**–**	(18)	(18)
Group MCEV earnings after tax	**(10)**	(18)	411

MCEV EARNINGS PER ORDINARY SHARE

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Half year ended 30 June 2015	Half year ended 30 June 2014	Year ended 31 December 2014
Group MCEV operating earnings after tax			
Basic[1]	**31.9p**	72.3p	128.4p
Diluted[2]	**31.8p**	72.2p	128.2p
Group MCEV earnings after tax			
Basic[1]	**(3.8p)**	(8.0p)	183.2p
Diluted[2]	**(3.8p)**	(8.0p)	182.8p

1 Based on 224 million shares (half year ended 30 June 2014: 225 million; year ended 31 December 2014: 225 million) as set out in note 7.1 of the IFRS condensed consolidated interim financial statements.

2 Based on 225 million shares (half year ended 30 June 2014: 225 million; year ended 31 December 2014: 225 million), allowing for share options in issue as set out in note 7.2 of the IFRS condensed consolidated interim financial statements.

The earnings on life business are calculated on a post-tax basis and are grossed up at the effective rate of shareholder tax for presentation in the income statement. The tax rate used is the UK corporate tax rate of 20.25% (half year ended 30 June 2014: 21.5%; year ended 31 December 2014: 21.5%).

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME – GROUP MCEV BASIS

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m	Year ended 31 December 2014 £m
Group MCEV earnings after tax	**(10)**	(18)	411
Other comprehensive income			
Remeasurements and pension scheme contributions on defined benefit pension schemes (net of tax)	**(6)**	32	(27)
Total comprehensive income for the period	**(16)**	14	384

RECONCILIATION OF MOVEMENT IN EQUITY – GROUP MCEV BASIS

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m	Year ended 31 December 2014 £m
Opening Group MCEV equity	**2,647**	2,378	2,378
Total comprehensive income for the period	**(16)**	14	384
Issue of ordinary share capital, net of associated commissions and expenses	**2**	–	1
Dividends paid on ordinary shares	**(60)**	(60)	(120)
Dividends paid on shares held by the employee trust and Group entities	**–**	1	1
Shares sold by Group entities	**–**	–	4
Movement in equity for equity-settled share-based payments	**2**	3	7
Shares acquired by the employee benefit trust	**–**	(8)	(8)
Total capital and dividend flows – external	**(56)**	(64)	(115)
Closing Group MCEV equity	**2,575**	2,328	2,647

GROUP MCEV ANALYSIS OF EARNINGS

FOR THE HALF YEAR ENDED 30 JUNE 2015

		Non-covered business		
	Covered business MCEV £m	**Management services IFRS £m**	**Other Group companies[1] IFRS £m**	**Group MCEV £m**
Group MCEV at 1 January 2015	**2,856**	**142**	**(351)**	**2,647**
Operating MCEV earnings (after tax)	**71**	**12**	**(10)**	**73**
Non-operating MCEV earnings (after tax)	**1**	**2**	**(86)**	**(83)**
Total MCEV earnings	**72**	**14**	**(96)**	**(10)**
Other comprehensive income	**–**	**–**	**(6)**	**(6)**
Capital and dividend flows – internal	**(78)**	**2**	**76**	**–**
Capital and dividend flows – external	**–**	**–**	**(56)**	**(56)**
Closing value at 30 June 2015	**2,850**	**158**	**(433)**	**2,575**

1 Comprises the Group holding companies that do not form part of the Phoenix Life division.

FOR THE HALF YEAR ENDED 30 JUNE 2014

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management[1] IFRS £m	Other Group companies[2] IFRS £m	Group MCEV £m
Group MCEV at 1 January 2014	3,059	134	108	(923)	2,378
Operating MCEV earnings (after tax)	142	13	14	(7)	162
Non-operating MCEV earnings (after tax)	(126)	(6)	(2)	(46)	(180)
Total MCEV earnings	16	7	12	(53)	(18)
Other comprehensive income	–	–	–	32	32
Divested business	(18)	–	–	18	–
Capital and dividend flows – internal	(224)	2	(29)	251	–
Capital and dividend flows – external	–	–	–	(64)	(64)
Closing value at 30 June 2014	2,833	143	91	(739)	2,328

FOR THE YEAR ENDED 31 DECEMBER 2014

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management[1] IFRS £m	Other Group companies[2] IFRS £m	Group MCEV £m
Group MCEV at 1 January 2014	3,059	134	108	(923)	2,378
Operating MCEV earnings (after tax)	268	28	14	(22)	288
Non-operating MCEV earnings (after tax)	(32)	(8)	(2)	165	123
Total MCEV earnings	236	20	12	143	411
Other comprehensive income	–	–	–	(27)	(27)
Divested businesses	(18)	–	(91)	109	–
Capital and dividend flows – internal	(421)	(12)	(29)	462	–
Capital and dividend flows – external	–	–	–	(115)	(115)
Closing value at 31 December 2014	2,856	142	–	(351)	2,647

1 Relates to the Ignis division disposed of on 1 July 2014, classified as discontinued operations. The asset management MCEV earnings after tax of £12 million includes intragroup income of £30 million.

2 Comprises the Group holding companies that do not form part of the Phoenix Life and Ignis divisions.

RECONCILIATION OF GROUP IFRS EQUITY TO MCEV NET WORTH

FOR THE HALF YEAR ENDED 30 JUNE 2015

	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Group net assets attributable to owners of the parent as reported under IFRS	**2,296**	2,060	2,365
Goodwill and other intangibles in accordance with IFRS removed (net of tax)	**(207)**	(383)	(217)
Value of in-force business in accordance with IFRS removed (net of tax)	**(979)**	(1,044)	(1,011)
Adjustments to IFRS reserving	**(111)**	(111)	(130)
Tax adjustments	**29**	27	33
Revalue listed debt to market value	**(92)**	(51)	(68)
Fair value adjustments[1]	**–**	(2)	–
Eliminate after tax pension scheme surpluses (including IFRIC 14 adjustments)[2]	**(462)**	(258)	(492)
Other adjustments[3]	**(9)**	5	(14)
MCEV net worth attributable to owners of the parent	**465**	243	466
MCEV value of in-force business included (net of tax) as set out in note 2	**2,110**	2,085	2,181
Closing Group MCEV	**2,575**	2,328	2,647

1 Investments carried at amortised cost under IFRS are revalued at market value.

2 Pension scheme surpluses valued on an IFRS basis are removed. This includes the IFRIC 14 adjustments as described in note 11 of the IFRS condensed consolidated interim financial statements.

3 Includes adjustments to revalue unlisted debt carried at amortised cost under IFRS at face value.

NOTES TO THE MCEV FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

OVERVIEW

The supplementary information on pages 61 to 73 has been prepared on a Market Consistent Embedded Value ('MCEV') basis except for the items described further below.

The MCEV methodology adopted by the Group is in accordance with the MCEV principles and guidance published by the CFO Forum in June 2008 and amended in October 2009, except that:

- risk-free rates have been defined as the annually compounded UK Government nominal spot curve plus 10 basis points rather than as the swap rate curve;
- no allowance for the cost of residual non-hedgeable risk ('CNHR') has been made because, in the opinion of the Directors, the Group operates a robust outsourcer model in terms of operational risk, does not write new business, is focused entirely on the back book, and has succeeded in closing out significant legacy risks. The theoretical value of CNHR is disclosed separately in note 1(b); and
- the asset management (prior to its divestment on 1 July 2014) and management service companies' values are calculated and presented on a basis consistent with IFRS. Under CFO Forum principles and guidance productivity gains should not be recognised until achieved. This treatment is inconsistent with the cost profile of a closed fund where continual cost reductions are expected to maintain unit costs as the business runs off. In the opinion of the Directors, if the MCEV principles and guidance were to be applied to the asset management and the management service companies, it would not provide a fair reflection of the Group's financial position. These companies are therefore reported alongside the Group's other holding companies at their IFRS net asset value.

In January 2015, the Group announced the successful exchange of 99% of the Group's Perpetual Reset Capital Securities ('Tier 1 notes') for £428 million of new listed subordinated notes issued by PGH Capital Limited and maturing in 2025. The terms of the new notes meet the requirement of Tier 2 capital under Solvency II and have a coupon of 6.625%. Upon exchange, new notes with a face value of £32 million were held by Group companies.

On 29 June 2015, the Group and Life Company Consolidation Group ('LCCG') signed a disposal agreement under which LCCG agreed to acquire the entire issued share capital of Scottish Mutual International Limited ('SMI') in return for gross cash consideration of £14 million and a dividend payable by SMI prior to completion of the transaction. The disposal is expected to be completed by the end of the year.

The Finance Act 2013 set the rate of corporation tax at 20% from April 2015. The Summer Budget 2015 introduced various changes that, when substantively enacted, would impact the valuation of deferred tax in these financial statements. Further reductions to the rate of corporation tax, to 19% in April 2017 and 18% from April 2020 have been announced and will be introduced by future legislation. In addition, changes have been proposed that would impact the valuation of deferred tax assets in relation to certain brought forward losses. The impact of these changes has not been reflected in the Group's MCEV.

COVERED BUSINESS

The MCEV calculations cover all long-term insurance business written by the Group, but exclude Ignis (prior to its divestment on 1 July 2014) and the management service companies.

Opal Re is included within covered business and is valued on a basis consistent with the annuity business within the UK life companies.

MCEV METHODOLOGY

The embedded value of covered business is based on a market-consistent methodology. Under this methodology, assets and liabilities are valued in line with market prices and consistently with each other.

The key components of MCEV are net worth plus the value of in-force covered business.

a) Net worth

For the Group's life companies, net worth is defined as the market value of shareholder funds plus the shareholders' interest in surplus assets held in long-term business funds less the market value of any outstanding debt of the life companies.

Loans from the life companies to holding companies have been consolidated out such that they do not appear as an asset in the life company or as a liability in the holding company. This presentation has no impact on the overall MCEV but does affect the allocation of net assets between covered and non-covered business.

b) Value of in-force business ('VIF')

The market consistent VIF represents the present value of profits attributable to shareholders arising from the in-force business, less an allowance for the time value of financial options and guarantees embedded within life insurance contracts and frictional costs of required capital.

The approach adopted to calculate VIF combines deterministic and stochastic techniques (each of which is discussed in more detail below):

- deterministic techniques have been used to value cash flows whose values vary in a linear fashion with market movements. These cash flows are valued using discount rates that reflect the risk inherent in each cash flow. In practice, it is not necessary to discount each cash flow at a different discount rate, as the same result is achieved by projecting and discounting all cash flows at risk-free rates. This is known as the 'certainty equivalent approach'; and
- stochastic techniques have been used to value cash flows that have an asymmetric effect on cash flows to shareholders. Here, the calculation involves the use of stochastic models developed for the purposes of realistic balance sheet reporting.

The VIF consists of the following components:

Present value of future profits ('PVFP')

The PVFP represents the present value of profits attributable to shareholders arising from the in-force business. The PVFP is calculated by projecting and discounting using risk-free rates, with an allowance for liquidity premiums where appropriate.

The projection is based on actively reviewed best estimate non-economic assumptions. Best estimate assumptions make appropriate allowance for expected future experience where there is sufficient evidence to justify; for example in allowing for future mortality improvements on annuity business.

Time value of financial options and guarantees ('TVFOGs')
The Group's embedded value includes an explicit allowance for the TVFOGs embedded within insurance contracts, including investment performance guarantees on participating business and guaranteed vesting annuity rates. The cost of these options and guarantees to shareholders is calculated using market-consistent stochastic models calibrated to the market prices of financial instruments as at the period end.

The TVFOGs allow for the impact of management actions, consistent with those permitted by the Principles and Practices of Financial Management. The modelling of management actions vary for each of the funds but typically include management of bonus rates and policy enhancements, charges to asset shares to cover increases to the cost of guarantees and alterations to investment strategy.

Frictional cost of capital ('COC')
COC is defined as the difference between the market value of shareholder-owned assets backing required capital and the present value of future releases of those assets allowing for future investment returns on that capital, investment expenses and taxes.

Required capital is defined as the minimum regulatory capital requirement, which is the greater of Pillar 1 and Pillar 2 capital requirements, plus the capital required under the Group's capital management policy. This equates to 144% of the Pillar 1 minimum regulatory capital requirement or 125% of the Pillar 2 minimum regulatory capital requirement (30 June 2014: 150% Pillar 1, 128% Pillar 2; 31 December 2014: 142% Pillar 1, 124% Pillar 2).

Solvency II introduces a new capital regime for insurers with effect from 1 January 2016. No allowance has been made within the Group's MCEV information for the impact of this developing regime.

Costs of residual non-hedgeable risks ('CNHR')
The CNHR should allow for risks that can have an asymmetric impact on shareholder value to the extent these risks have not already been reflected in the PVFP or TVFOGs. The majority of such risks within the Group are operational and tax risks.

No allowance for the CNHR has been made, as in the opinion of the Directors, the CNHR calculated in accordance with CFO Forum principles and guidance does not anticipate further risk management actions, and therefore does not provide a fair reflection of the Group's ongoing risk.

However, the CNHR calculated in accordance with the CFO Forum principles and guidance, and therefore without anticipating further risk management actions, has been disclosed below.

For with-profits business the CNHR would increase the TVFOGs by £20 million (30 June 2014: £21 million; 31 December 2014: £14 million).

For other business the cost would be £84 million (30 June 2014: £107 million; 31 December 2014: £105 million). This equates to an equivalent average cost of capital charge of 0.87% (30 June 2014: 1.1%; 31 December 2014: 0.95%). The level of capital assumed in this calculation is determined based on a 99.5% confidence level over a 1 year time horizon, consistent with the ICA methodology. Allowance is made for diversification benefits between non-hedgeable risks, but not between hedgeable and non-hedgeable risks.

c) Valuation of debt
Listed debt issued by the Group is valued at the market value quoted at the reporting date which is consistent with MCEV principles.

The National Provident Life Limited recourse bonds are backed by surpluses that are expected to emerge on blocks of its unit-linked and unitised with-profits business. This securitisation has been valued on a cash flow basis, allowing for payments expected to be due based on the projected level of securitised surpluses emerging. The full VIF of the securitised unit-linked and unitised with-profits business is expected to be payable to bondholders; therefore, no additional value accrues to the embedded value.

Unlisted debt owed by the holding companies is included at face value.

d) Taxation
Full allowance has been made for the value of tax that would become payable on the transfer of surplus assets out of non-profit funds. This allowance reflects the projected pace of releases of surplus from non-profit funds that is not required to support with-profit funds.

Allowance has also been made for the tax relief arising from interest payments made on the debt of the holding companies. The value of the tax relief is determined by offsetting the tax payable on profits emerging from covered business against the tax relief afforded by interest payments on the debt. Interest payments are projected assuming that current levels of debt are reduced and then refinanced to maintain a long-term level of debt that the Directors consider to be supported by the projected embedded value of the Group's businesses.

e) New business
The MCEV places a value on the profits expected to be earned on annuities arising from policies vesting with guaranteed annuity terms. The value is calculated based on management's assumptions as to long-term profit margins and projected take-up rates. As at 30 June 2015, the Group MCEV included £171 million in respect of these policies (30 June 2014: £133 million; 31 December 2014: £163 million). These policies are excluded from the definition of new business on the basis that the annuity being provided is an obligation under an existing policy and the life companies are already reserving for the cost of these guarantees. New business therefore excludes premiums of £164 million (30 June 2014: £201 million; 30 December 2014: £390 million) written in the period in respect of annuities with guaranteed terms.

Policies with guarantees are fully reserved for on an economic basis. To the extent fewer policyholders choose to take up their guaranteed rates than we expect, there is potential for positive experience variances to benefit the MCEV.

New business includes all other annuities written by the life insurance companies.

1. BASIS OF PREPARATION CONTINUED

f) Participating business

Allowance is made for future bonus rates on a basis consistent with the projection assumptions and established company practice.

The time value of options and guarantees used in the calculation of MCEV also allows for expected management and policyholder responses to the varying external economic conditions simulated by the economic scenario generators. Policyholder response has been modelled based on historical experience. Management actions have been set in accordance with each life company's Principles and Practices of Financial Management.

g) Pension schemes

The MCEV allows for pension scheme deficits as calculated on an IFRS basis, but no benefit is taken for pension scheme surpluses.

Under IFRIC 14, an interpretation of IAS 19, pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable would result in a surplus that would not be recoverable, a liability is recognised when the obligation arises. The IFRS IFRIC 14 adjustments are not reflected in the Group MCEV as the Group anticipates that its ultimate contributions into the pension schemes will not give rise to an unrecoverable surplus.

h) Events after the reporting period

On 19 August 2015, the Board declared an interim dividend of 26.7p per share (30 June 2014: 26.7p per share) for the half year ended 30 June 2015. The cost of this dividend has not been recognised as a liability in the interim financial statements for the period to 30 June 2015 and will be charged to the Reconciliation of Movement in Equity – Group MCEV basis when paid.

2. COMPONENTS OF THE MCEV OF COVERED BUSINESS

	Half year ended 30 June 2015 £m	Half year ended 30 June 2014 £m	Year ended 31 December 2014 £m
Net worth	**740**	748	675
PVFP	**2,173**	2,119	2,238
TVFOG	**(54)**	(27)	(38)
COC	**(9)**	(7)	(19)
Total VIF	**2,110**	2,085	2,181
	2,850	2,833	2,856

The net worth of covered business of £740 million at 30 June 2015 (30 June 2014: £748 million; 31 December 2014: £675 million) consists of £315 million of free surplus in excess of required capital (30 June 2014: £379 million; 31 December 2014: £196 million).

3. ANALYSIS OF COVERED BUSINESS MCEV EARNINGS (AFTER TAX)

	Half year ended 30 June 2015		
	Net worth £m	**VIF £m**	**Total life MCEV £m**
Life MCEV at 1 January 2015	**675**	**2,181**	**2,856**
New business value	**1**	**1**	**2**
Expected existing business contribution (reference rate)[1]	**10**	**27**	**37**
Expected existing business contribution (in excess of reference rate)[2]	**–**	**20**	**20**
Transfer from VIF to net worth	**85**	**(85)**	**–**
Experience variances	**(2)**	**(2)**	**(4)**
Assumption changes	**(9)**	**(11)**	**(20)**
Other operating variances	**26**	**10**	**36**
Life MCEV operating earnings	**111**	**(40)**	**71**
Economic variances	**13**	**(23)**	**(10)**
Other non-operating variances	**8**	**3**	**11**
Total Life MCEV earnings	**132**	**(60)**	**72**
Divested businesses	**–**	**–**	**–**
Capital and dividend flows	**(67)**	**(11)**	**(78)**
Life MCEV at 30 June 2015	**740**	**2,110**	**2,850**

1 Expected existing business contribution (reference rate) represents the expected return on the opening MCEV at the long-term risk-free rate at 2.29% (30 June 2014: 3.55%; 31 December 2014: 3.55%).

2 Expected existing business contribution (in excess of reference rate) represents the additional expected return above the risk-free rate arising from long-term risk premiums on equities, property and corporate bonds.

	Half year ended 30 June 2014		
	Net worth £m	VIF £m	Total life MCEV £m
Life MCEV at 1 January 2014	802	2,257	3,059
New business value	4	3	7
Expected existing business contribution (reference rate)	15	44	59
Expected existing business contribution (in excess of reference rate)	(4)	17	13
Transfer from VIF to net worth	84	(84)	–
Experience variances	29	7	36
Assumption changes	13	(30)	(17)
Other operating variances	53	(9)	44
Life MCEV operating earnings	194	(52)	142
Economic variances	16	(38)	(22)
Other non-operating variances	(37)	(67)	(104)
Total Life MCEV earnings	173	(157)	16
Capital and dividend flows	(227)	(15)	(242)
Life MCEV at 30 June 2014	748	2,085	2,833

	Year ended 31 December 2014		
	Net worth £m	VIF £m	Total life MCEV £m
Life MCEV at 1 January 2014	802	2,257	3,059
New business value	7	4	11
Expected existing business contribution (reference rate)	31	79	110
Expected existing business contribution (in excess of reference rate)	(8)	35	27
Transfer from VIF to net worth	179	(179)	–
Experience variances	45	8	53
Assumption changes	20	(35)	(15)
Other operating variances	71	11	82
Life MCEV operating earnings	345	(77)	268
Economic variances	(28)	70	42
Other non-operating variances	(34)	(40)	(74)
Total Life MCEV earnings	283	(47)	236
Divested business	(18)	–	(18)
Capital and dividend flows	(392)	(29)	(421)
Life MCEV at 31 December 2014	675	2,181	2,856

4. NEW BUSINESS

The value generated by new business written during the period is calculated as the present value of the projected stream of after-tax distributable profits from that business. This contribution has been valued using economic and non-economic assumptions at the point of sale. The value of new business is shown after the effect of frictional costs of holding required capital on the same basis as for the in-force covered business.

	Premium £m	MCEV £m	MCEV/ Premium %
Half year ended 30 June 2015	**44**	**2**	**4%**
Half year ended 30 June 2014	83	7	8%
Year ended 31 December 2014	154	11	7%

5. MATURITY PROFILE OF BUSINESS

This note sets out how the PVFP is expected to emerge into net worth over future years. Surpluses are projected on a certainty equivalent basis with allowance for liquidity premiums as appropriate and are discounted at risk-free rates.

	Years					
Present value of future profits (PVFP)	1–5 £m	6–10 £m	11–15 £m	16–20 £m	20+ £m	Total £m
30 June 2015	**831**	**550**	**378**	**241**	**173**	**2,173**
30 June 2014	826	531	359	228	175	2,119
31 December 2014	859	556	387	250	186	2,238

6. ASSUMPTIONS

REFERENCE RATES

(a) Risk-free rates

Risk-free rates are based on the annually compounded UK Government bond nominal spot curve plus ten basis points, extrapolated as necessary to meet the term of the liabilities.

The risk-free rates assumed for a sample of terms were as follows:

	30 June 2015		30 June 2014		31 December 2014	
Term	Gilt yield +10bps	Swap yield	Gilt yield +10bps	Swap yield	Gilt yield +10bps	Swap yield
1 year	**0.59%**	**0.73%**	0.74%	0.82%	0.43%	0.98%
5 years	**1.57%**	**1.61%**	2.09%	2.21%	1.31%	1.46%
10 years	**2.29%**	**2.07%**	2.97%	2.86%	1.97%	1.87%
15 years	**2.67%**	**2.27%**	3.40%	3.19%	2.38%	2.12%
20 years	**2.87%**	**2.31%**	3.62%	3.34%	2.62%	2.26%

Had the Group used the swap rate curve as set out in the CFO Forum principles, the MCEV would have been £274 million lower (30 June 2014: £118 million lower; 31 December 2014: £218 million lower).

(b) Liquidity premiums

In October 2009, the CFO Forum published an amendment to the MCEV principles to reflect the inclusion of a liquidity premium. The changes affirm that the reference rate may include a liquidity premium over and above the risk-free yield curve for liabilities which are not liquid, given that the matching assets are able to be held to maturity.

The liabilities to which a liquidity premium is applied include immediate annuities, pensions policies with benefits defined as an annuity or in-the-money guaranteed annuity options. The liquidity premium is determined by reference to the yield on the bond portfolios held after allowing for credit risk by deducting margins for best estimate defaults and unexpected default risk premiums. The additional yield above risk-free rates implied by the calculated liquidity premium is as follows:

	30 June 2015	30 June 2014	31 December 2014
Additional yield over risk-free rates	**0.53%**	0.35%	0.46%

INFLATION

For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index ('RPI') as at 30 June 2015, was taken from the implied inflation curve at a term appropriate to the liabilities. The rate of increase in UK National Average Earnings inflation is assumed to be RPI plus 100 basis points as at 30 June 2015 (30 June 2014: RPI plus 100 basis points; 31 December 2014: RPI plus 100 basis points).

STOCHASTIC ECONOMIC ASSUMPTIONS

The time value of options and guarantees is calculated using an economic scenario generator. The model is calibrated to market conditions as at 30 June 2015. The scenario generator and calibration are consistent with that used for realistic balance sheet reporting.

A LIBOR Market Model with displaced diffusion and stochastic volatility (LMM-DDSV) is used to generate risk-free rates over a complete yield curve, calibrated to the UK nominal spot curve plus 10 basis points, consistent with the deterministic projections. Interest rate volatility is calibrated to swaption implied volatilities, as per the sample below.

	Option term (years)					
Interest rate volatility	**5**	**10**	**15**	**20**	**25**	**30**
30 June 2015 Swap term (years)						
5	**34.6%**	**30.6%**	**28.8%**	**27.9%**	**27.5%**	**27.2%**
10	**29.0%**	**27.0%**	**26.3%**	**26.0%**	**25.9%**	**25.6%**
20	**25.7%**	**25.3%**	**25.3%**	**25.3%**	**24.9%**	**24.3%**
30	**25.3%**	**25.3%**	**25.3%**	**24.8%**	**23.9%**	**23.0%**

	Option term (years)					
Interest rate volatility	5	10	15	20	25	30
30 June 2014 Swap term (years)						
5	23.3%	19.3%	17.0%	16.7%	16.3%	16.1%
10	20.7%	18.3%	16.7%	16.1%	15.6%	15.3%
20	18.2%	16.8%	15.2%	14.2%	13.5%	12.9%
30	17.1%	15.8%	14.1%	12.8%	11.8%	11.1%

	Option term (years)					
Interest rate volatility	5	10	15	20	25	30
31 December 2014 Swap term (years)						
5	37.4%	32.1%	29.1%	27.4%	26.5%	25.7%
10	29.9%	27.0%	25.4%	24.6%	24.1%	23.2%
20	24.6%	23.8%	23.4%	22.9%	22.0%	21.0%
30	23.6%	23.3%	22.7%	21.9%	20.8%	19.8%

Real interest rates have been modelled using the two-factor Hull-White model, calibrated to index-linked gilts.

Equity volatility is calibrated to replicate the prices on a range of FTSE equity options with a range of terms and strikes. The equity volatility model used allows volatility to vary with both term and strike of the options.

	Term (years)					
Equity implied volatility (ATM)	**5**	**10**	**15**	**20**	**25**	**30**
30 June 2015	**19.9%**	**21.6%**	**22.7%**	**23.4%**	**23.9%**	**24.3%**
30 June 2014	20.5%	20.4%	20.8%	21.3%	21.8%	22.3%
31 December 2014	20.8%	22.2%	23.0%	23.4%	23.7%	23.9%

Best estimate levels of volatility are assumed for directly held property. The model implied volatility for 30 June 2015 is 16% (30 June 2014: 15%).

The modelling of corporate bonds allows for credit transitions and defaults, calibrated to historic data, derived from current markets.

6. ASSUMPTIONS CONTINUED

OPERATING EARNINGS

The Group uses normalised investment returns in calculating the expected existing business contribution. The Group considers that an average return over the remaining term of its in-force business is more appropriate than using a short-term rate and is more consistent with the Group's expectation of longer-term rates of return. Therefore, the Group calculates the expected contribution on existing business using a 15-year gilt rate at the beginning of the reporting period plus 10 basis points and long-term expectations of excess investment returns.

The table below sets outs the asset risk premiums used:

	Half year ended 30 June 2015	Half year ended 30 June 2014	Year ended 31 December 2014
Equities	**3.0%**	3.0%	3.0%
Property	**2.0%**	2.0%	2.0%
Gilts	**0.0%**	0.0%	0.0%

The return assumed on corporate bond portfolios is the redemption yield for the portfolio less an allowance for credit risk.

EXPENSES

Each life company's projected per policy expenses are based on existing agreements with the Group's management service companies, adjusted to allow for additional costs incurred directly by the life companies, including, for example, regulatory fees and one-time expenses.

The life companies' projected investment expenses are based on the fees agreed with the Group's fund managers, allowing for current and projected future asset mixes.

VALUATION OF DEBT AND NON-CONTROLLING INTERESTS

The Group's condensed statement of consolidated financial position as at 30 June 2015 includes Perpetual Reset Capital Securities with principal outstanding of £6 million (30 June 2014: £394 million; 31 December 2014: £394 million), Phoenix Life Limited subordinated debt with a face value of £200 million (30 June 2014: £200 million; 31 December 2014: £200 million), the PGH Capital Limited senior bond with a face value of £300 million (30 June 2014: nil; 31 December 2014: £300 million) and the PGH Capital Limited subordinated notes issued within the period, with principal outstanding of £396 million (net of internal holdings). These listed securities have been included within the MCEV at their market value quoted at the reporting date.

The table below summarises the face and market values of these debt obligations after adjustment for internal holdings in the Perpetual Reset Capital Securities and the PGH Capital subordinated notes:

	Half year ended 30 June 2015		Half year ended 30 June 2014		Year ended 31 December 2014	
	Face value £m	**Market value £m**	Face value £m	Market value £m	Face value £m	Market value £m
Listed debt and non-controlling interests						
Perpetual Reset Capital Securities	**6**	**6**	394	390	394	387
Phoenix Life Limited subordinated debt	**200**	**212**	200	214	200	212
PGH Capital Limited senior bond	**300**	**320**	–	–	300	324
PGH Capital Limited subordinated notes	**396**	**403**	–	–	–	–

Unlisted debt has been included at face value:

	Half year ended 30 June 2015 Face value £m	Half year ended 30 June 2014 Face value £m	Year ended 31 December 2014 Face value £m
Unlisted debt			
PGH Capital Limited facility	**780**	–	840
Pearl and Impala facilities	**–**	1,528	–
Royal London PIK notes and facility	**–**	124	–

7. SENSITIVITY TO ASSUMPTIONS

The table below summarises the key sensitivities of the MCEV of covered business at 30 June 2015:

	30 June 2015 Life MCEV £m	31 December 2014 Life MCEV £m
(1) Base	**2,850**	2,856
(2) 1% decrease in risk-free rates	**94**	59
(3) 1% increase in risk-free rates	**(107)**	(68)
(4) 10% decrease in equity market values	**(29)**	(46)
(5) 10% increase in equity market values	**31**	46
(6) 10% decrease in property market values	**(49)**	(46)
(7) 10% increase in property market values	**45**	45
(8) 100bps increase in credit spreads[1]	**(176)**	(164)
(9) 100bps decrease in credit spreads[1]	**161**	157
(10) 25% increase in equity/property implied volatilities	**(15)**	(9)
(11) 25% increase in swaption implied volatilities	**(11)**	(9)
(12) 25% decrease in lapse rates and paid-up rates	**(35)**	(30)
(13) 5% decrease in annuitant mortality	**(137)**	(140)
(14) 5% decrease in non-annuitant mortality	**17**	15
(15) Required capital equal to the minimum regulatory capital[2]	**6**	16

1 25bps is assumed to relate to default risk.

2 Minimum regulatory capital is defined as the greater of Pillar 1 and Pillar 2 capital requirements without any allowance for the Group's capital management policy.

No expense sensitivity has been shown as maintenance costs incurred by the covered business are largely fixed under the terms of agreements with the management services companies.

ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') was held on 23 April 2015 at 1pm.

The voting results for our 2015 AGM, including proxy votes and votes withheld are available on our website at www.thephoenixgroup.com.

SHAREHOLDER SERVICES

MANAGING YOUR SHAREHOLDING

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

REGISTRAR DETAILS

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

Shareholder helpline number	+44 (0) 870 707 4040
Fax number	+44 (0) 870 873 5851
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 2015

Announcement of unaudited six months' Interim Results	20 August 2015
Announcement of third quarter Interim Management Statement	22 October 2015

2015 INTERIM DIVIDEND

Ex-dividend date	27 August 2015
Record date	28 August 2015
Interim 2015 dividend payment date	1 October 2015

2015 ANNUAL RESULTS

Our financial results for the year ended 31 December 2015 will be announced on 23 March 2016.

FORWARD-LOOKING STATEMENTS

The Interim Report 2015 contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

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

- Domestic and global economic and business conditions
- Asset prices
- Market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally
- The policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and ultimate transition to the European Union's 'Solvency II' Directive on the Group's capital maintenance requirements
- The impact of inflation and deflation
- Market competition
- Changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates)
- The timing, impact and other uncertainties of future acquisitions or combinations within relevant industries
- Risks associated with arrangements with third parties
- Inability of reinsurers to meet obligations or unavailability of reinsurance coverage
- The impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within the Interim Report 2015.

The Group undertakes no obligation to update any of the forward-looking statements contained within the Interim Report 2015 or any other forward-looking statements it may make or publish.

The Interim Report 2015 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 Interim Report 2015 is or should be construed as a profit forecast or estimate.

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 at www.thephoenixgroup.com.

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.

To stay up-to-date with Phoenix Group news and other changes to our site's content, you can sign up for email alerts, which will notify you when content is added. To sign up visit http://www.thephoenixgroup.com/investor-relations/email-alerts.aspx.

For mobile phone users we also have a useful mini-site at http://m.thephoenixgroup.com which contains links to our latest news items, share price, financial calendar and contact details.

WWW.THEPHOENIXGROUP.COM

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 Core Silk, a paper containing 100% virgin fibre sourced from well managed, responsible, FSC® certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

Design and production: Radley Yeldar

FSC www.fsc.org MIX Paper from responsible sources FSC® C001785

PHOENIX GROUP HOLDINGS

REGISTERED ADDRESS
PHOENIX GROUP HOLDINGS
PO BOX 309
UGLAND HOUSE
GRAND CAYMAN KY1-1104
CAYMAN ISLANDS

CAYMAN ISLANDS REGISTRAR OF COMPANIES NUMBER 202172

PRINCIPAL PLACE OF BUSINESS
PHOENIX GROUP HOLDINGS
1ST FLOOR
32 COMMERCIAL STREET
ST HELIER JE2 3RU
JERSEY

WWW.THEPHOENIXGROUP.COM