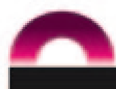
PHOENIX GROUP HOLDINGS
INTERIM REPORT 2012 FOR THE HALF YEAR ENDED 30 JUNE 2012



PHOENIX GROUP

Contents

Group Chief Executive's report 02

Business review 05

06 Key performance indicators
08 Cash generation
10 Group MCEV
12 Group IFRS operating profit
15 Group assets under management
16 Capital management
19 Risk management

IFRS condensed consolidated interim financial statements 21

22 Statement of Directors' responsibilities
23 Auditor's review report
24 Condensed consolidated interim financial statements and notes
50 Additional life company asset disclosures

MCEV supplementary information 55

56 Statement of Directors' responsibilities
57 Auditor's review report
58 MCEV interim financial statements and notes

Additional information 72

73 Shareholder information
74 Forward-looking statements

Group Chief Executive's report

Introduction

The first half of 2012 was a period of strong performance, despite tough economic conditions.

After a relatively calm start to the year, markets again turned volatile during April with the continued uncertainty facing the Eurozone having an impact across all asset classes. Political uncertainty and continued low economic growth across the region has led to severe sovereign debt funding issues for certain Eurozone countries. Although Phoenix continues to have a very low direct exposure to Peripheral Eurozone sovereign debt, the uncertainty has indirectly impacted the Group through the wider financial markets.

Despite these external economic headwinds, I am pleased to report Phoenix has continued with its programme of management actions to accelerate cashflow, enhance MCEV and improve the Group's capital position, resulting in an agreement, announced on 27 June, to transfer approximately £5 billion of annuity in-payment liabilities to Guardian Financial Services ('Guardian'). This transaction accelerated the release of £252 million of capital and added to the Group's IGD surplus.

We continue to explore with our lenders options regarding the reterming of our banking facilities and remain confident that, in due course, we will be able to agree terms.

The Board has declared an interim dividend for the first 6 months of 2012 of 21p per share which will be paid on 4 October 2012. The dividend represents 50% of our stated annual dividend policy. We have now removed the scrip dividend option to avoid the dilutive impact on shareholders.

Performance highlights

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

Against a full year cash generation target of £500 million to £600 million, £119 million was delivered in the first half of the year. As we stated in March, the cash generation in 2012 will be weighted towards the second half of the year. However, we now expect the Group to exceed its previously forecast range and I am delighted to set a new, revised target of £600 million to £700 million. This target is supported by the £566 million of free surplus in the Group's life companies as at 30 June 2012 and further management actions that are planned to accelerate cash flows during the remainder of the year. I am also pleased to set an increased long-term cash generation target for the period from 2011 to 2016 of £3.3 billion. To be in a position to outperform the challenging targets set at the beginning of the year is clear demonstration of the strength of Phoenix's business model, even in these times of continued market stress which have caused us to take a prudent view as to the quantum of cash generation that may be achieved in the full year.

Group MCEV was £2,135 million as at 30 June 2012, compared to £2,118 million as at the end of December 2011. We continue to target an average of £100 million per annum of incremental embedded value growth from management actions between 2011 to 2014. The Group generated £107 million of incremental MCEV during the first half of 2012 from management actions, as part of our ongoing programme of system and modelling improvements; and we have delivered a total of £272 million since the start of 2011. We are therefore confident that we are on track to meet our £400 million target over the four year period to 2014.

Our gearing ratio as at 30 June 2012 remains unchanged at 46% (46% as at 31 December 2011). We set a full year target of lowering our gearing ratio to 43% or below, and I am pleased to say that we are on track to meet this target. The ratio is expected to improve through cash generation and embedded value management actions in the second half, and we expect to meet our target by year end.

Our financial strength remains robust with IGD surplus estimated at £1.2 billion at 30 June 2012, compared to £1.3 billion at the end of December 2011. Headroom above our IGD capital policy remained stable at £0.4 billion.

As a result of the evolving regulatory environment, which is becoming increasingly risk-focused across the industry, the Group now undertakes a further group solvency calculation, the 'PLHL ICA', calculated at PLHL, the same level at which we perform our IGD calculation. This is an assessment on a Pillar 2 basis of the capital resources and requirements arising from the obligations and risks which exist outside the life companies. At 30 June 2012, our PLHL ICA surplus was estimated to be £0.4 billion. We aim to ensure that PLHL maintains an ICA surplus of at least £150 million.

Group assets under management were £71.6 billion as at 30 June 2012, compared to £72.1 billion as at 31 December 2011. The decline of less than 1% was due to the natural run-off of the life company assets, partly offset by market movements and a strong net inflow of £927 million of third party assets.

Finally, the Group achieved IFRS operating profits of £207 million in the first half of 2012, compared to a result of £136 million in the first half of 2011. The increase primarily relates to one-off benefits generated from modelling and policy harmonisations across the business as part of our ongoing programme of system and modelling improvements. These enhanced the Phoenix Life operating profit by £59 million.

Phoenix Life review

Phoenix Life contributed IFRS operating profit of £205 million in the first half of 2012, compared to £152 million for the same period in 2011. The increase primarily relates to one-off benefits generated from modelling and policy harmonisations which enhanced the Phoenix Life operating profit by £59 million.

One of the key successes for Phoenix Life during the first six months of the year was the reinsurance of approximately £5 billion of annuity in-payment liabilities to Guardian. This has increased the free surplus within the Group's life companies by £252 million, improved the Group IGD surplus by £25 million and increased MCEV by £36 million. The reinsurance agreement is expected to be replaced by a formal Part VII transfer of the annuity in-payment liabilities to Guardian in 2013 which is also expected to bring further benefits for the Group's IGD surplus.

In addition to this important transaction, Phoenix Life has made strong progress across several other areas in the first half of 2012. The Part VII transfer of the business of NPI Limited into Phoenix Life Limited ('PLL') was completed in the first half, strengthening the Group's IGD position and consolidating all the UK life business in the Impala silo within PLL. In addition, work is well advanced to effect a business transfer of London Life Limited into Pearl Assurance Limited during the second half of the year. Following this funds merger the Group will only have three operating UK life companies, with the enlarged Pearl Assurance Limited being renamed Phoenix Life Assurance Limited post completion of the business transfer.

Customers are at the heart of what we do and as such we are always aiming to improve the service we provide. The Group migrated an additional 230,000 policies onto the BaNCS policy adminstration platform during the first half of 2012, with a further 700,000 planned for migration during the second half of the year. We have been working to speed up claim payments and improving customer service. Nearly 90% of maturities are now being paid on or before due date across the Group (a 7% increase) and average end to end payment times for surrenders have been reduced by 6.7 days (a 20% improvement).

We also launched a new website for a number of our life funds to enhance the online customer experience, which includes a new Customer Centre Area with 'how to' guides and on-line forms. Furthermore, we continue to seek initiatives that may be of benefit to our customers and, in 2012, we have identified a number of small, externally-managed unit linked funds for closure where it is in the customers' interest so to do. This programme is near completion, with those customers switching into internally managed funds benefiting from lower fees.

In March 2012, in response to the Government's consultation on improving pension transfers and dealing with small pension pots, Phoenix called for the Government to exclude legacy business from any revisions to pension transfer legislation, in order both to protect policyholder interests and avoid an unnecessary administrative burden on the industry. The Government published the results of this consultation exercise in July and confirmed that only new, auto-enrolled business would be included in the legislation, thereby avoiding policyholder detriment and administrative costs to the Group.

Preparations for Solvency II are a high priority working towards the implementation date of 1 January 2014. The Group's Actuarial Systems Transformation is developing alongside the Solvency II work, with the Group being able to look forward to operating a single, modern actuarial system by the time Solvency II is introduced.

Ignis review

Despite the difficult market conditions, Ignis has continued to make progress in its development, building on its investment in new business development and infrastructure. Ignis' IFRS operating profits for the first half of 2012 were £19 million compared to £18 million in the first half of 2011. Ignis' assets under management, oversight, advice and administration as at 30 June 2012, excluding stock lending collateral of £10.4 billion (31 December 2011: £10.8 billion), amounted to £70.3 billion compared to £70.7 billion at 31 December 2011.

Group Chief Executive's report continued

This financial performance has been supported by continued investment outperformance, with 13 out of the 15 main group life funds meeting or exceeding their benchmark targets. The historically strong performance in rates, credit and liquidity asset classes has continued over the first six months of the year and there has also been much improved performance in the Equities and Advisors business units, with UK equities in particular seeing a strong turnaround. With regard to our third party funds, rolling performance over one year and three years has remained good in both our main Property funds and the Ignis Sterling Liquidity fund (which is now over £14 billion in size), whilst performance in the Absolute Return Government Bond Fund ('ARGBF') has been very strong, with absolute performance in excess of 9% since inception on 31 March 2011.

New third party business in the first half has been very pleasing, with £927 million of net inflows driven by strong sales of Liquidity, ARGBF and Real Estate products. This strong performance demonstrates Ignis' development as a third party manager and the success of innovative products such as ARGBF positions the business well for the future. In addition, in conjunction with the reinsurance of part of the Group's annuity portfolio, Ignis will continue to provide investment management services in respect of assets backing the in-payment annuity liabilities transferred to Guardian. These assets will transfer into Ignis' third party business on a phased basis concluding by the end of 2012.

This financial performance has been achieved in parallel with a transformation of Ignis' operations. Ignis is partnering with HSBC Securities Services ('HSBC') to deliver investment administration and other related activities, and a variety of Ignis and Phoenix Life back office and operational functions have transferred to HSBC along with around 140 Ignis employees.

Ignis' ability to transform its operational platform whilst continuing to deliver strong investment performance and attract net new third party assets is a testament to its strengths as a business and I remain confident that it will continue to build on these achievements in the coming years.

Outlook

We have made good progress in the first half of the year and I am delighted to be able to increase our cash flow targets, albeit recognising the sensitivity of such targets to the impact of market conditions, which we seek to mitigate through the effective and careful management of risk and market exposure within our business. As well as the revised 2012 cash generation target of £600 million to £700 million, we have also increased our longer term cash generation target for the six year period between 2011 to 2016 from £3.2 billion to £3.3 billion, of which £929 million had been achieved by 30 June 2012.

I am pleased to announce that Sir Howard Davies will be joining us as Chairman, succeeding Ron Sandler with effect from 1 October 2012. Howard has a deep understanding of public company corporate governance and risk management and a breadth of experience within the financial services industry. I look forward to working with him in the coming months. I would also like to thank Ron, on behalf of the Board, for his exceptional contribution to the Group over the last three years and wish him well for the future.

Whilst market volatility continues to generate uncertainty, the Group's cash flow, MCEV and IGD positions have remained resilient.

I would like to thank my colleagues for their hard work during this challenging period. We remain committed to delivering value to all our stakeholders, by being preeminent in the administration of our closed life business, and through the delivery of strong investment performance by Ignis.

Clive Bannister
Group Chief Executive

22 August 2012

Business review

06 Key performance indicators
08 Cash generation
10 Group MCEV
12 Group IFRS operating profit
15 Group assets under management
16 Capital management
19 Risk management

Business review

Key performance indicators

Operating companies' cash generation

£119m

(HY11: £496 million)

Cash generation is £119 million in the period in line with our previously announced expectation that 2012 cash remittances would be weighted towards the second half of the year. Management actions have generated cash flows of £32 million in the period.

The cumulative cash flow target for 2011 to 2016 has now been increased from £3.2 billion to £3.3 billion and the full year cash generation target for 2012 has been increased from a range of £500 million to £600 million to a range of £600 million to £700 million. The Group is on track to meet its revised full year cash generation target for 2012.

The Phoenix Life free surplus was £566 million at 30 June 2012 due to free surplus generation of £568 million in the period.

Group MCEV

£2,135m

(31 December 2011: £2,118 million)

Group MCEV increased by £17 million to £2,135 million at 30 June 2012, benefiting from management actions of £107 million principally through harmonising methodologies and policies across Phoenix Life.

The Group's target is an average of £100 million per annum of incremental embedded value growth from management actions between 2011 and 2014 and it is on track to achieve this.

Group IFRS operating profit

£207m

(HY11: £136 million)

Group IFRS operating profit increased by £71 million to £207 million, of which £59 million relates to management actions.

Ignis Asset Management IFRS operating profit

£19m

(HY11: £18 million)

Ignis' IFRS operating profit increased by £1 million on the comparative period to £19 million.

Group assets under management

£71.6bn

(31 December 2011: £72.1 billion)

Group assets under management decreased by £0.5 billion in the period as net third party sales of £0.9 billion partly offset the run-off of the closed life funds.

Of the Group assets under management, Ignis manages or administers £54.2 billion of internal funds (31 December 2011: £54.9 billion), and £9.0 billion of external funds (31 December 2011: £8.6 billion) and provides oversight and advisory services on £7.1 billion of internal funds (31 December 2011: £7.2 billion).

IGD surplus (estimated)

£1.2bn

(31 December 2011: £1.3 billion)

The estimated IGD surplus remained resilient at £1.2 billion with capital generation of £0.1 billion offset by dividend, debt financing costs and repayments of £0.2 billion. Headroom over the Group's capital policy has remained stable at £0.4 billion (31 December 2011: £0.4 billion).

PLHL ICA surplus (estimated)

£0.4bn

In accordance with FSA requirements, the Group now undertakes an Individual Capital Assessment ('ICA') at the level of the highest EEA insurance group holding company, which is Phoenix Life Holdings Limited ('PLHL'). This involves an assessment, on a Pillar 2 basis, of the capital resources and requirements arising from the obligations and risks which exist outside the life companies. As agreed with the FSA, the Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million.

Gearing ratio

46%

(31 December 2011: 46%)

Gearing maintained at 46% at 30 June 2012. The ratio is expected to reduce to 43% or below by the end of 2012 through cash generation and embedded value management actions.

Interim dividend per share

21p per share

(HY11: 21p per share)

Proposed interim dividend per share of 21p*. The scrip dividend option has been removed.

* Subject to compliance with the processes set out in the Group's main credit facilities.

Business review continued

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:

Holding Companies' cash flows	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Cash and cash equivalents at start of period	**837**	486
Cash receipts[1]	**119**	496
Uses of cash:		
Other operating expenses	**(22)**	(28)
Pension scheme contributions	**(10)**	(5)
Debt interest	**(70)**	(77)
Total recurring cash outflows	**(102)**	(110)
Non-recurring cash outflows	**(5)**	(15)
Uses of cash before debt repayments and shareholder dividend	**(107)**	(125)
Debt repayments	**(103)**	(108)
Shareholder dividend	**(36)**	(29)
Cash and cash equivalents at end of period[2]	**710**	720

1 Includes amounts received by the Holding Companies in respect of tax losses surrendered to the operating companies.

2 Closing balance at 30 June 2012 includes required prudential cash buffer of £150 million (30 June 2011: £150 million).

Cash receipts

Cash remitted by Phoenix Life was £95 million (HY11: £481 million) in line with our previously announced expectation that 2012 cash remittances would be weighted towards the second half of the year. Ignis remitted cash of £24 million, up from £15 million in the first half of 2011. Of the £119 million cash received, £32 million has been generated through management actions, including the transfer of the business of NPI Limited into Phoenix Life Limited.

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[3] plus the IFRS net assets of the management service companies, these being available for distribution to the Holding Companies:

Phoenix Life free surplus movement	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Opening free surplus	**93**	750
Cash distributed to Holding Companies	**(95)**	(481)
IFRS operating profit (net of tax)	**184**	141
IFRS economic variances and non-recurring items	**(116)**	54
Movements in capital requirements and policy	**448**	79
Valuation differences and other[4]	**52**	(75)
Closing free surplus	**566**	468

3 The life companies' free surplus is the excess of the net worth over the required capital reflected in the MCEV and represents capital in excess of what is required under the life companies' capital policies.

4 Includes differences between IFRS valuation of assets and liabilities and valuation for capital purposes.

Movements in capital requirements and policy in the period includes the net capital benefits of the annuity transfer transaction of £252 million.

Uses of cash

Recurring cash outflows

Recurring cash outflows were broadly in line with the 2011 half year results. Pension scheme contributions under existing agreements are mainly paid in the second half of the year.

Non-recurring cash outflows

Non-recurring cash outflows of £5 million were lower than the first half of 2011 as the Group's transformation programmes with its outsourcers near completion (HY11: £15 million).

Debt repayments and shareholder dividend

A £15 million voluntary debt prepayment and scheduled repayments of £88 million[1] in respect of the Group's main credit facilities were made in the first half of 2012.

Shareholder dividends paid in the first half of 2012, net of scrip of £1 million, were £36 million.

1 This includes £1 million paid to Pearl Assurance Limited, a subsidiary undertaking. Pearl Assurance Limited is a lender under the Pearl facility.

Business review continued

Group MCEV

Group MCEV earnings[1]

The Group generated MCEV operating earnings after tax of £155 million for the period, an increase of £2 million on the comparative period.

Group MCEV earnings	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Life MCEV operating earnings[2]	**205**	229
Management services operating profit	**10**	10
Ignis Asset Management operating profit	**19**	18
Group costs	**(29)**	(48)
Group MCEV operating earnings before tax	**205**	209
Tax charge on operating earnings	**(50)**	(56)
Group MCEV operating earnings after tax	**155**	153
Economic variances on life business	**(61)**	(5)
Economic variances on non-life business	**19**	(5)
Other non-operating variances on life business	**27**	(1)
Non-recurring items on non-life business	**(18)**	18
Finance costs attributable to owners	**(75)**	(75)
Tax on non-operating earnings	**6**	27
Group MCEV earnings after tax	**53**	112

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 and management services businesses are included in the Group MCEV at the value of 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 £205 million (HY11: £229 million) are therefore calculated as £155 million operating earnings (HY11: £168 million) grossed up for tax at 24.5 % (HY11: 26.5%).

Life MCEV operating earnings after tax

Other than vesting annuities and increments to existing policies, the Group's life division 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 2012 £m	Half year ended 30 June 2011 £m
New business value	**9**	8
Expected existing business contribution	**92**	129
Non-economic experience variances and assumption changes:		
Experience variances	**(12)**	24
Assumption changes	**6**	–
Other operating variances	**60**	7
Total non-economic experience variances and assumption changes	**54**	31
Life MCEV operating earnings after tax	**155**	168

New business value generated from vesting annuities during the period was £9 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 new business margin[3] was 6% after tax (HY11: 5%).

The Group uses long-term investment returns in calculating the expected existing business contribution. The expected contribution of £92 million after tax is £37 million lower than in 2011, primarily due to a decrease in the long-term risk-free rate and a lower opening MCEV for life business.

3 Ratio of the net of tax new business value to the amount received as new single premiums.

The life division's non-economic variances increased MCEV by £48 million after tax in the period and primarily relate to one-off management actions, principally harmonising methodologies and policies across the business. There were no significant assumption changes at the half year.

Management services and Ignis Asset Management operating profit

Commentary on the management services and Ignis Asset Management operating profit is provided in the Group IFRS operating profit section.

Group costs

The Group costs include costs relating to Group functions and project spend of £15 million before tax (HY11: £24 million). The balance of the charge in both periods relates primarily to pension scheme contributions and is different to IFRS as the MCEV does not recognise pension schemes in surplus.

Economic variances

Negative economic variances on life business of £61 million before tax primarily relate to the difference between actual short-term returns and the long-term investment return assumptions used to determine operating earnings, decreases in yields and negative property returns, partly offset by the positive impact of narrowing credit spreads.

Positive economic variances on non-life business of £19 million before tax largely relate to a decrease in the market value of the Tier 1 Bonds which increased MCEV earnings by £9 million (HY11:£nil) and fair value gains on interest rate swaps.

Other non-operating variances on life business

Other non-operating variances on life business of positive £27 million before tax primarily relate to the net benefit on the annuity transfer transaction of £36 million partly offset by restructuring and regulatory change and systems transformation costs incurred by the life companies.

Non-recurring items on non-life business

Overall non-recurring items on non-life business reduced embedded value by £18 million before tax. Non-recurring items include restructuring costs of £11 million (HY11: £14 million) and regulatory change and systems transformation costs of £7 million (HY11: £7 million). The comparative period included a gain of £4 million arising from closing the Group's pension schemes to future accrual and a gain of £35 million following the recovery of historic costs under the management services agreements with the life division.

Finance costs attributable to owners

Finance costs attributable to owners comprise:

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Debt finance costs[1]	**49**	48
Other (including Tier 1 coupon)	**26**	27
	75	75

1 Finance costs in respect of bank debt (and associated swap interest).

Group MCEV

The Group MCEV increased by £17 million over the period to £2,135 million at 30 June 2012 as shown below:

Movement in Group MCEV	**Half year ended 30 June 2012 £m**	Half year ended 30 June 2011 £m
Group MCEV at 1 January	**2,118**	2,104
Group MCEV earnings after tax	**53**	112
Other comprehensive income		
Actuarial gains on defined benefit pension scheme	**–**	13
Capital and dividend flows	**(36)**	(26)
Group MCEV at 30 June	**2,135**	2,203

No actuarial gains or losses were recognised on the pension schemes in 2012 as both schemes were in an IAS 19 surplus for the period and the MCEV does not recognise pension schemes in surplus. Capital and dividend flows in the period comprise net external dividend payments by Phoenix Group Holdings of £36 million.

Business review continued

Group IFRS operating profit

The Group has delivered a strong performance, generating an IFRS operating profit of £207 million for the period (HY11: £136 million).

Group IFRS operating profit	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
IFRS operating profit		
Phoenix Life	**205**	152
Ignis Asset Management	**19**	18
Group costs	**(17)**	(34)
Operating profit before adjusting items	**207**	136
Investment return variances and economic assumption changes on long-term business	**(82)**	47
Variance on owners' funds	**(2)**	(3)
Amortisation of acquired in-force business and other intangibles	**(67)**	(69)
Non-recurring items	**(29)**	13
Profit before finance costs attributable to owners	**27**	124
Finance costs attributable to owners	**(56)**	(55)
(Loss)/profit before the tax attributable to owners	**(29)**	69
Tax credit attributable to owners	**38**	39
Profit for the period attributable to owners	**9**	108

Phoenix Life

Operating profit for Phoenix Life 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. The principal assumptions underlying the calculation of the longer term investment return are set out in note 3 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 2012 £m	Half year ended 30 June 2011 £m
With-profit	**32**	27
With-profit where internal capital support provided	**3**	30
Non-profit and unit-linked	**145**	68
Longer term return on owners' funds	**15**	17
Management services	**10**	10
Phoenix Life operating profit before tax	**205**	152

The with-profit operating profit of £32 million represents the shareholders' one-ninth share of the policyholder bonuses and increased by £5 million on the comparative period (HY11: £27 million) due to higher terminal bonuses and improved bonus rates in certain funds.

The operating profit for with-profit funds where internal capital support has been provided has reduced by £27 million on the comparative period primarily due to the benefit of modelling improvements of £21 million recognised in the first half of 2011.

The operating profit for non-profit and unit-linked funds benefited by a one-off £59 million in the first half of 2012 from management actions to harmonise methodologies and policies across the business. The comparative period was impacted by negative experience variances.

The longer term return on owners' funds of £15 million reflects the asset mix of owners' funds, primarily cash based assets and fixed interest securities. The investment policy for managing these funds remains prudent.

The operating profit for the management services companies comprises income from the life companies in accordance with the respective management services agreements less fees related to the outsourcing of services and other operating costs. The current period operating profit of £10 million was in line with the comparative period.

Ignis Asset Management

The operating profit of the asset management business of £19 million increased by £1 million on the comparative period (HY11: £18 million). Whilst operating profit was impacted by lower performance fees generated by one of the joint ventures managing life company assets, this was offset by an increase in fees earned from the stock lending programme and a reduction in operating expenses.

Ignis Asset Management operating profit	**Half year ended 30 June 2012 £m**	Half year ended 30 June 2011 £m
Third party (including Group pension schemes)[1]	**15**	16
Life fund revenue[2]	**48**	49
Other	**3**	1
Total revenues	**66**	66
Staff costs	**(31)**	(29)
Other operating expenses	**(16)**	(19)
Total expenses	**(47)**	(48)
Ignis Asset Management operating profit before tax	**19**	18

1 Includes performance fees of £1 million (HY11: £1 million).

2 Includes performance fees of £5 million (HY11: £8 million).

Performance fees are mainly recognised in the second half of the year.

Group costs

The Group costs include costs relating to Group functions and project spend of £15 million (HY11: £24 million). The balance of the charge in both periods relates primarily to the pension schemes.

Adjusting items

Overall, the life companies had negative investment return variances and economic assumption changes of £82 million in the period, primarily driven by decreases in yields and negative property returns and partly offset by the positive impact of narrowing credit spreads.

The favourable variance on owners' funds of £2 million primarily relates to fair value gains on interest rate swaps.

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 £58 million (HY11: £60 million). Amortisation of other intangible assets totalled £9 million in the period (HY11: £9 million).

Non-recurring items include restructuring costs of £8 million (HY11: £21 million) and regulatory change and systems transformation costs of £21 million (HY11: £7 million). The comparative period included a gain of £10 million arising from closing the Group's pension schemes to future accrual and a gain of £35 million following the recovery of historic costs under the management services agreements with the life division.

Business review continued

Finance costs attributable to owners

Finance costs attributable to owners comprise:

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Debt finance costs[1]	**49**	48
Other finance costs	**7**	7
Finance costs attributable to owners	**56**	55

1 Finance costs in respect of bank debt (and associated swap interest).

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 zero percent tax rate on its income. Consequently tax charged in these accounts primarily represents UK tax on profits earned in the UK, where the principal operating companies, excluding Opal Re, have their centre of operations.

The Group tax credit for the period attributable to owners is £38 million based on a loss (after policyholder tax) of £29 million. This primarily reflects the benefit of a reduction of £20 million in deferred tax liabilities as a result of the ongoing reduction in UK corporation tax rates and the net benefit of recognising tax losses not previously valued.

Group assets under management

Group assets under management represent all assets actively managed or administered by or on behalf of the Group including life companies' funds managed by third parties. It includes Holding Company cash and cash equivalents but excludes stock lending collateral.

Group assets under management	Life and Holding Companies £bn	Third party £bn	Total Group assets under management £bn	Stock lending collateral[2] £bn	Total including stock lending collateral £bn
As at 1 January 2012	**63.5**	**8.6**	**72.1**	**10.8**	**82.9**
Inflows	**–**	**1.4**	**1.4**	**–**	**1.4**
Outflows	**(1.7)**	**(0.5)**	**(2.2)**	**(0.4)**	**(2.6)**
Market movements	**0.8**	**(0.5)**	**0.3**	**–**	**0.3**
As at 30 June 2012[1]	**62.6**	**9.0**	**71.6**	**10.4**	**82.0**

1 £0.8 billion of third party assets under management in respect of the Argonaut Capital Partnership are due to transfer from Ignis administration in the second half of 2012.

2 Stock lending collateral managed by Ignis on behalf of the life companies.

Life and Holding Companies' assets decreased by £0.9 billion to £62.6 billion in the first half of the year as positive market movements of £0.8 billion partly offset the run-off of the closed life business of £1.7 billion.

Net inflows from third parties were £0.9 billion (HY11: £0.8 billion) in the period with positive inflows across all sales channels. International net inflows of £0.2 billion (HY11: £nil) were driven by sales of the Absolute Return Government Bond Fund. Net inflows in the comparative period of £0.8 billion included £0.4 billion from a new rates LDI mandate from a Group pension scheme.

Of the Group assets in the table above, Ignis manages, provides oversight and advisory services on or administers the following:

Ignis assets under management	Life and Holding Companies £bn	Third party £bn	Total Group assets under management £bn	Stock lending collateral[2] £bn	Total including stock lending collateral £bn
Direct asset management	**54.2**	**9.0**	**63.2**	**10.4**	**73.6**
Oversight and advice	**7.1**	**–**	**7.1**	**–**	**7.1**
Administration	**–**	**–**	**–**	**–**	**–**
As at 30 June 2012	**61.3**	**9.0**	**70.3**	**10.4**	**80.7**

Ignis assets under management	Life and Holding Companies £bn	Third party £bn	Total Group assets under management £bn	Stock lending collateral[2] £bn	Total including stock lending collateral £bn
Direct asset management	54.7	8.6	63.3	10.8	74.1
Oversight and advice	7.2	–	7.2	–	7.2
Administration	0.2	–	0.2	–	0.2
As at 31 December 2011	62.1	8.6	70.7	10.8	81.5

Business review continued

Capital management

The Group has continued to focus on capital and gearing during the period. The IGD headroom over capital policy has remained stable at £0.4 billion and the gearing ratio as at 30 June 2012 is maintained at 46%.

Regulatory capital requirements

IGD surplus (estimated)

Each UK life company must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the FSA. 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 level insurance group holding company, which is Phoenix Life Holdings Limited ('PLHL'), a subsidiary of Phoenix Group Holdings.

The estimated IGD surplus at 30 June 2012 is £1.2 billion. The components of the estimated IGD calculation are shown below:

	30 June 2012 £bn	31 December 2011 £bn
Group capital resources ('GCR')	**5.6**	5.6
Group capital resource requirement ('GCRR')	**(4.4)**	(4.3)
IGD surplus (estimated)	**1.2**	1.3

The key drivers of the movement in IGD surplus were:

- capital generation items of £0.1 billion, which included the benefits of the transfer of the NPI Limited business into Phoenix Life Limited (effective from 1 January 2012); offset by
- dividend payments, debt financing and repayments of £0.2 billion.

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

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

The headroom over the policy is £0.4 billion (31 December 2011: £0.4 billion).

Following the annuity transfer transaction which was effective on 1 July 2012, the IGD surplus increased by £25 million. Further IGD benefits are expected to be realised when the annuity liabilities are transferred to Guardian Financial Services by a formal Part VII transfer.

IGD Excess Capital

IGD Excess Capital includes policyholder and certain shareholder capital which is currently excluded under FSA rules from the PLHL group IGD surplus calculation. This capital provides the Group with financial flexibility and is available to protect policyholders and shareholders from adverse events as demonstrated by the insensitive nature of the IGD surplus to market stresses.

The excluded capital relates to:

- the surplus estate of the with-profit funds which is treated as a liability to policyholders for IGD purposes due to the closed fund nature of the business; and
- restricted surplus which mainly relates to surplus excluded from the IGD calculation due to the corporate structure of the PLHL Group.

At 30 June 2012 the estimated IGD Excess Capital was £3.2 billion (31 December 2011: £3.1 billion) and is reconciled to the IGD surplus as shown below:

	30 June 2012 £bn	31 December 2011 £bn
IGD Excess Capital	**3.2**	3.1
Restricted surplus	**(0.3)**	(0.3)
Excess policyholder capital	**(1.7)**	(1.5)
IGD surplus (estimated)	**1.2**	1.3

PLHL ICA surplus (estimated)

In accordance with FSA requirements, the Group now 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 a Pillar 2 basis, of the capital resources[1] and requirements arising from the obligations and risks which exist outside the life companies. Pillar 2 is based on a self-assessment methodology and calculates capital resources and requirements on an economic basis.

As agreed with the FSA, the Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million. PLHL's ICA position at 30 June 2012 is set out below:

	30 June 2012 £bn
Capital resources[1]	**0.8**
Capital resource requirements[2]	**(0.4)**
PLHL ICA surplus (estimated)	**0.4**

1 Capital resources includes the surplus over capital policy in the life companies, a prudent assessment of the present value of future profits of Ignis Asset Management and the net assets of the Holding Companies less pension scheme obligations calculated on a Pillar 2 basis. This assessment is in addition to compliance with the regulatory requirements of the life companies.

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.

Sensitivity 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:

Sensitivity analysis	**IGD surplus 30 June 2012 £bn**	**IGD headroom 30 June 2012 £bn**	**IGD Excess Capital 30 June 2012 £bn**	**PLHL ICA surplus 30 June 2012 £bn**
Estimated 30 June 2012 position	**1.2**	**0.4**	**3.2**	**0.4**
Estimated position following a 20% fall in equity markets	**1.2**	**0.4**	**3.1**	**0.2**
Estimated position following a 15% fall in property values	**1.2**	**0.4**	**3.1**	**0.3**
Estimated position following a 75 bps parallel increase in yields[1]	**1.1**	**0.4**	**3.0**	**0.3**
Estimated position following a 75 bps parallel decrease in yields[2]	**1.2**	**0.3**	**3.4**	**0.2**
Estimated position following credit spread widening[3]	**1.1**	**0.3**	**3.0**	**0.2**

1 Represents a real yield reduction of 25 bps, given a 75 bps parallel increase in nominal yields.

2 Represents a real yield reduction of 25 bps, given a 75 bps parallel decrease in nominal yields.

3 10 year term: AAA 46 bps, AA 77 bps, A 99 bps, BBB 140 bps.

The IGD Excess Capital is more sensitive to market movements than the IGD surplus and headroom because it includes excess policyholder capital in the strong with-profit funds which hold more equities, property and non-duration matched credit than other funds. This policyholder capital is restricted in the IGD surplus and headroom.

Business review continued

The PLHL ICA surplus sensitivities reflect the impact of market movements not only on the Group's life companies but also on its staff pension schemes. The capital requirement in respect of Group pension schemes is particularly sensitive to movements in real yields, as this has a direct impact on the size of the schemes' liabilities. The life companies' surpluses are more sensitive to movements in equity markets, property values and credit spreads. As part of its ongoing programme of management actions, the Group is seeking to reduce the capital requirements and volatility of the PLHL ICA by implementing de-risking and hedging strategies.

Shareholder debt

In managing capital the Group seeks to achieve an optimal level of debt in 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.

The Group has net shareholder debt of £2,164 million (31 December 2011: £2,140 million) as shown below. The gearing ratio[1] is 46% (31 December 2011: 46%).

Shareholder debt (including hybrid debt)	30 June 2012 £m	31 December 2011 £m
Bank debt at face value		
Pearl facility	**375**	400
Pearl loan notes	**79**	78
Impala facility	**1,915**	1,993
Royal London PIK notes and facility	**114**	111
Tier 1 Bonds at market value	**247**	256
PLL subordinated debt at market value	**144**	139
Shareholder debt (including hybrid debt)[2]	**2,874**	2,977
Holding Company cash and cash equivalents	**(710)**	(837)
Net shareholder debt	**2,164**	2,140

Further detail on shareholder debt is included in note 11 to the IFRS condensed consolidated interim financial statements.

The Group intends to improve operational and financial flexibility through a targeted reduction in the gearing ratio and intends to reduce it to 43% or below during the course of 2012.

1 Net shareholder debt as a percentage of the sum of Group MCEV, net shareholder debt and the present value of future profits (PVFP) of Ignis. The PVFP of Ignis at 30 June 2012 was £0.4 billion (31 December 2011: £0.4 billion).

2 The unsecured loan notes of £5 million (31 December 2011: £7 million) are excluded from this shareholder debt analysis as their repayment will be funded in 2012 from an escrow account which is not included in the total for Holding Company cash and cash equivalents.

Risk management

Risk management lies at the heart of what we do and is a source of value creation, making it a key component of the Group's strategic agenda. The Board seeks to ensure that the Group identifies and manages all risks accordingly, either to create additional value for its stakeholders or to mitigate any potentially adverse effects. A summary of the principal risks and uncertainties facing the Group is found below.

The principal risks and uncertainties facing the Group remain as described on pages 42 and 43 in the 2011 Annual Report and Accounts and are detailed below. To ensure the Group manages its risk it operates a Risk Management Framework ('RMF') which seeks to establish a coherent and interactive set of arrangements and processes to support the effective management of risk throughout the Group. The outputs of the RMF provide assurance that risks are being appropriately identified and managed and that an independent assessment of management's approach to risk management is being performed.

During the year, the Group has continued to strengthen the components of the RMF to ensure that they are aligned with the requirements of Solvency II and external best practice.

Risk	Impact	Mitigation
In times of market turbulence, the Group may not have sufficient liquid assets to meet its payment obligations or may suffer a loss in value.	The Group has ongoing obligations to meet payments to creditors which are funded by the release of capital and profits from its business units. The emerging cash flows of the Group may be impacted during periods of 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, financial condition and prospects.	The Group undertakes regular monitoring activities in relation to market risk exposure, including the monitoring of asset mixes, cash flow forecasting and stress and scenario testing. In response to this, the Group may implement de-risking strategies to mitigate against unwanted outcomes. The Group also maintains cash buffers in its Holding Companies to reduce reliance on emerging cash flows.
The Group could be adversely affected by the level of its indebtedness and its financing structure.	The total principal amount outstanding under the Groups main credit facilities as at 30 June 2012 was £2,369 million. These main credit facilities require that a significant portion of the principal amount outstanding is repaid in the years 2014 to 2016. The Group may need to refinance the outstanding principal amounts on terms which are not as favourable as the existing terms or it may be unable to refinance those obligations at all.	The Group undertakes regular meetings and reviews with the lending banks to ensure open dialogue is maintained and that all relevant parties are aware of the current position.
The potential limitation on distributions from the Group's FSA regulated companies may impair the ability of the Group to service its existing debt commitments.	The Group has ongoing principal repayment and interest obligations to its lending syndicates. In the event that transfers from the Group's insurance and investment management subsidiaries are limited by any law, regulatory action or change in established approach, this may impair the Group's ability to service these obligations. The implementation of directives and other legislative changes such as Solvency II could have this effect and may therefore have a material adverse effect on the Group's results, financial condition and cash flows.	The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory change and their impact on our operations and lobbies where appropriate.

Risk management continued

Risk	Impact	Mitigation
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 or from trading counterparties failing to meet all or part of their obligations; such as reinsurers failing to meet obligations assumed under reinsurance arrangements or derivative counterparties or stock-borrowers failing to pay as required. An increase in credit spreads on such 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 counterparty credit rating. Where possible, exposures are diversified through the use of a range of counterparty providers. All reinsurance and derivative positions are appropriately collateralised and guaranteed.
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.

IFRS condensed consolidated interim financial statements

22 Statement of Directors' responsibilities
23 Auditor's review report
24 Condensed consolidated interim financial statements and notes
50 Additional life company asset disclosures

Statement of Directors' responsibilities

Board Responsibility Statement pursuant to section 5:25d(2)(c) of the Dutch Financial Markets Supervision Act.

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

1. the condensed consolidated financial statements for the half year ended 30 June 2012, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings and its consolidated subsidiaries taken as a whole;

2. the Interim Report includes a fair review of the state of affairs of Phoenix Group Holdings and its consolidated subsidiaries as at 30 June 2012 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

3. the Interim Report includes a fair review of the information required on material transactions with related parties.

Clive Bannister
Group Chief Executive

James McConville
Group Finance Director

St Helier, Jersey
22 August 2012

Auditor's review report

To: The Board of Directors of Phoenix Group Holdings

Introduction

We have reviewed the accompanying condensed consolidated interim financial information for the six month period ended 30 June 2012, of Phoenix Group Holdings, Cayman Islands, as set out on the pages 24 to 31, which comprises the condensed consolidated income statement, the condensed statement of consolidated comprehensive income, the pro forma reconciliation of Group operating profit to profit 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 32 to 49 for the half year period then ended. The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, 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 Dutch auditing standards 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 accompanying condensed consolidated interim financial information for the six month period ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34, as adopted by the European Union.

The Hague, 22 August 2012

Ernst & Young Accountants LLP
was signed by
S.B. Spiessens

Condensed consolidated interim financial statements and notes

Condensed consolidated income statement

For the half year ended 30 June 2012

	Notes	**Half year ended 30 Jun 2012 £m**	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Gross premiums written		**808**	710	1,473
Less: premiums ceded to reinsurers		**(37)**	(42)	(85)
Net premiums written		**771**	668	1,388
Fees		**74**	86	170
Net investment income		**1,885**	1,519	4,920
Total revenue, net of reinsurance payable		**2,730**	2,273	6,478
Other operating income		**4**	6	12
Net income		**2,734**	2,279	6,490
Policyholder claims		**(2,475)**	(2,514)	(4,968)
Less: reinsurance recoveries		**110**	104	224
Change in insurance contract liabilities		**343**	997	(1,338)
Change in reinsurers' share of insurance contract liabilities		**56**	(57)	222
Transfer (to)/from unallocated surplus		**–**	(29)	16
Net policyholder claims and benefits incurred		**(1,966)**	(1,499)	(5,844)
Change in investment contract liabilities		**(254)**	(144)	260
Acquisition costs		**(2)**	(7)	(13)
Change in present value of future profits		**–**	(6)	(19)
Amortisation of acquired in-force business		**(64)**	(67)	(134)
Amortisation of customer relationships		**(9)**	(9)	(18)
Administrative expenses		**(292)**	(323)	(606)
Net (income)/expense attributable to unit holders		**(42)**	1	131
Total operating expenses		**(2,629)**	(2,054)	(6,243)
Profit before finance costs and tax		**105**	225	247
Finance costs		**(118)**	(131)	(251)
(Loss)/profit for the period before tax		**(13)**	94	(4)
Tax attributable to policyholders' returns		**(16)**	(25)	(173)
(Loss)/profit before the tax attributable to owners		**(29)**	69	(177)
Tax credit/(charge)	4	**22**	14	(94)
Add: tax attributable to policyholders' returns		**16**	25	173
Tax credit attributable to owners		**38**	39	79
Profit/(loss) for the period attributable to owners		**9**	108	(98)
Attributable to				
Owners of the parent		**2**	90	(131)
Non-controlling interests		**7**	18	33
		9	108	(98)
Earnings per share				
Basic and diluted earnings per share	5	**1.1p**	52.3p	(76.2)p

Condensed statement of consolidated comprehensive income

For the half year ended 30 June 2012

	Notes	**Half year ended 30 Jun 2012 £m**	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Profit/(loss) for the period		**9**	108	(98)
Other comprehensive (expense)/income:				
Actuarial (losses)/gains of defined benefit pension schemes		**(68)**	17	251
Tax credit on defined benefit pension schemes	4.2	**3**	9	1
		(65)	26	252
Total comprehensive (expense)/income for the period		**(56)**	134	154
Attributable to:				
Owners of the parent		**(63)**	116	121
Non-controlling interests	8	**7**	18	33
		(56)	134	154

Pro forma reconciliation of Group operating profit to profit attributable to owners

For the half year ended 30 June 2012

	Notes	**Half year ended 30 Jun 2012 £m**	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Operating profit				
Phoenix Life		**205**	152	395
Ignis Asset Management		**19**	18	46
		224	170	441
Group costs		**(17)**	(34)	(54)
Total operating profit before adjusting items		**207**	136	387
Investment return variances and economic assumption changes on long-term business	3.3	**(82)**	47	(338)
Variance on owners' funds	3.3	**(2)**	(3)	9
Amortisation of acquired in-force business		**(58)**	(60)	(121)
Amortisation of customer relationships		**(9)**	(9)	(18)
Non-recurring items		**(29)**	13	14
Profit/(loss) before finance costs attributable to owners		**27**	124	(67)
Finance costs attributable to owners		**(56)**	(55)	(110)
(Loss)/profit before the tax attributable to owners		**(29)**	69	(177)
Tax credit attributable to owners	4	**38**	39	79
Profit/(loss) for the period attributable to owners		**9**	108	(98)

Condensed consolidated interim financial statements and notes continued

Condensed statement of consolidated financial position

As at 30 June 2012

	Notes	30 Jun 2012 £m	30 Jun 2011 £m	31 Dec 2011 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	6	**–**	–	–
Share premium		**1,018**	1,080	1,054
Other reserves		**5**	5	5
Shares held by employee trust and Group entities		**(11)**	(12)	(11)
Foreign currency translation reserve		**93**	93	93
Retained earnings		**448**	504	511
Total equity attributable to owners of the parent		**1,553**	1,670	1,652
Non-controlling interests	8	**726**	711	714
Total equity		**2,279**	2,381	2,366
Liabilities				
Pension scheme deficit	9	**–**	62	–
Insurance contract liabilities				
Liabilities under insurance contracts	10	**51,439**	49,524	51,800
Unallocated surplus		**848**	893	848
		52,287	50,417	52,648
Financial liabilities				
Investment contracts	12.1	**7,933**	8,701	7,978
Borrowings	11	**3,110**	3,204	3,152
Deposits received from reinsurers		**467**	408	472
Derivatives	12.1	**3,958**	2,194	4,292
Net asset value attributable to unit holders	12.1	**4,334**	2,197	3,209
Obligations for repayment of collateral received		**12,402**	10,152	13,005
		32,204	26,856	32,108
Provisions		**57**	65	59
Deferred tax		**613**	612	673
Reinsurance payables		**30**	37	33
Payables related to direct insurance contracts		**484**	768	707
Current tax		**61**	44	105
Accruals and deferred income		**176**	208	175
Other payables		**1,524**	1,209	627
Total liabilities		**87,436**	80,278	87,135
Total equity and liabilities		**89,715**	82,659	89,501

Condensed statement of consolidated financial position

As at 30 June 2012

	Notes	**30 Jun 2012 £m**	30 Jun 2011 £m	31 Dec 2011 £m
ASSETS				
Pension scheme surplus	9	**257**	80	314
Intangible assets				
Goodwill		**115**	115	115
Acquired in-force business		**1,818**	1,949	1,882
Customer relationships		**393**	411	402
Present value of future profits		**23**	36	23
		2,349	2,511	2,422
Property, plant and equipment		**24**	32	28
Investment property		**1,826**	1,837	1,816
Financial assets				
Loans and receivables		**2,723**	2,365	3,529
Derivatives	12.1	**5,098**	2,709	6,099
Equities	12.1	**10,640**	11,991	11,078
Fixed and variable rate income securities	12.1	**43,469**	40,292	42,010
Collective investment schemes	12.1	**5,931**	6,628	6,251
		67,861	63,985	68,967
Insurance assets				
Reinsurers' share of insurance contract liabilities		**3,204**	2,892	3,153
Reinsurance receivables		**64**	270	257
Insurance contract receivables		**14**	20	14
		3,282	3,182	3,424
Current tax		**6**	4	8
Prepayments and accrued income		**520**	548	599
Other receivables		**1,181**	1,135	200
Cash and cash equivalents		**12,409**	9,345	11,723
Total assets		**89,715**	82,659	89,501

Condensed consolidated interim financial statements and notes continued

Condensed statement of consolidated cash flows

For the half year ended 30 June 2012

	Notes	**Half year ended 30 Jun 2012 £m**	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Cash flows from operating activities				
Cash generated by operations	13	**915**	1,185	3,692
Taxation paid		**(70)**	(20)	(16)
Net cash flows from operating activities		**845**	1,165	3,676
Cash flows from investing activities				
Purchase of property, plant and equipment		**(1)**	(3)	(7)
Net cash flows from investing activities		**(1)**	(3)	(7)
Cash flows from financing activities				
Proceeds from selling shares in subsidiaries to non-controlling interests		**33**	3	1
Proceeds of new policyholder borrowings	11	**60**	63	98
Ordinary share dividends paid	7	**(36)**	(29)	(55)
Coupon on Perpetual Reset Capital Securities paid		**(26)**	(26)	(26)
Dividends paid to non-controlling interests	8	**(11)**	(11)	(21)
Repayment of policyholder borrowings		**(11)**	(797)	(825)
Repayment of shareholder borrowings		**(104)**	(110)	(174)
Interest paid on policyholder borrowings		**(4)**	(6)	(21)
Interest paid on shareholder borrowings		**(59)**	(92)	(111)
Net cash flows from financing activities		**(158)**	(1,005)	(1,134)
Net increase in cash and cash equivalents		**686**	157	2,535
Cash and cash equivalents at the beginning of the period		**11,723**	9,188	9,188
Cash and cash equivalents at the end of the period		**12,409**	9,345	11,723

Condensed statement of consolidated changes in equity

For the half year ended 30 June 2012

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust and Group entities £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 2012	–	1,054	5	(11)	93	511	1,652	714	2,366
Profit for the period	–	–	–	–	–	2	2	7	9
Other comprehensive expense for the period	–	–	–	–	–	(65)	(65)	–	(65)
Total comprehensive (expense)/income for the period	–	–	–	–	–	(63)	(63)	7	(56)
Dividends paid on ordinary shares (note 7)	–	(37)	–	–	–	–	(37)	–	(37)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(11)	(11)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(19)	(19)
Shares issued in lieu of cash dividends	–	1	–	–	–	–	1	–	1
Shares in subsidiaries purchased by non-controlling interests	–	–	–	–	–	–	–	35	35
At 30 June 2012	–	1,018	5	(11)	93	448	1,553	726	2,279

Condensed consolidated interim financial statements and notes continued

Condensed statement of consolidated changes in equity

For the half year ended 30 June 2011

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust and Group entities £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 2011	–	1,109	5	(13)	93	386	1,580	720	2,300
Profit for the period	–	–	–	–	–	90	90	18	108
Other comprehensive income for the period	–	–	–	–	–	26	26	–	26
Total comprehensive income for the period	–	–	–	–	–	116	116	18	134
Dividends paid on ordinary shares (note 7)	–	(36)	–	–	–	–	(36)	–	(36)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(11)	(11)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(19)	(19)
Shares issued in lieu of dividends	–	7	–	–	–	–	7	–	7
Credit to equity for equity-settled share-based payments	–	–	–	–	–	3	3	–	3
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	–	3	3
Shares distributed by employee trust	–	–	–	1	–	(1)	–	–	–
At 30 June 2011	–	1,080	5	(12)	93	504	1,670	711	2,381

Condensed statement of consolidated changes in equity

For the year ended 31 December 2011

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust and Group entities £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 2011	–	1,109	5	(13)	93	386	1,580	720	2,300
(Loss)/profit for the period	–	–	–	–	–	(131)	(131)	33	(98)
Other comprehensive income for the period	–	–	–	–	–	252	252	–	252
Total comprehensive income for the period	–	–	–	–	–	121	121	33	154
Dividends paid on ordinary shares (note 7)	–	(72)	–	–	–	–	(72)	–	(72)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(21)	(21)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(19)	(19)
Shares issued in lieu of dividends	–	17	–	–	–	–	17	–	17
Credit to equity for equity-settled share-based payments	–	–	–	–	–	6	6	–	6
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	–	1	1
Shares distributed by employee trust	–	–	–	2	–	(2)	–	–	–
At 31 December 2011	–	1,054	5	(11)	93	511	1,652	714	2,366

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

The interim financial statements for the half year ended 30 June 2012 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 24 to 49 and were authorised by the Board of Directors for issue on 22 August 2012. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young Accountants LLP and their review report appears on page 23.

The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and in accordance with the accounting policies set out in the 2011 financial statements which were prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted for use in the European Union, except for the amendments referred to below.

In preparing the interim financial statements the Group has adopted the following standards, amendments and interpretations:

- Deferred tax – Recovery of underlying assets (Amendments to IAS 12) (2012). This provides a practical approach to the measurement of deferred tax liabilities and assets when investment property is measured at fair value, according to whether the entity expects to recover an asset by using or selling it; and
- Disclosure – Transfer of financial assets (Amendments to IFRS 7) (2012). This revises the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.

Adoption of these standards has not led to any measurement or presentational changes to the results of any period presented in these interim financial statements.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the interim financial statements.

2. Changes in accounting policies

There have been no changes in accounting policies in the current reporting period except as noted above, and the comparatives for the year ended 31 December 2011 and the half year ended 30 June 2011 included in these interim financial statements are as presented in the most recent annual and interim financial statements.

3. 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 has two operating segments as follows:

- Phoenix Life – this segment manages a range of whole life, term assurance and pension products; and
- Ignis Asset Management – this segment provides investment management services to the life companies within the Group and to third parties, covering both retail and institutional investors.

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.

3.1 Segmental result

Half year ended 30 June 2012

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	771	–	–	–	771
	771	–	–	–	771
Fees from:					
External customers	43	31	–	–	74
Other segment	–	33	–	(33)	–
	43	64	–	(33)	74
Net investment income:					
Recurring	1,887	1	(3)	–	1,885
Other operating income:					
Recurring	4	1	–	(1)	4
Net income	2,705	66	(3)	(34)	2,734
Net policyholder claims and benefits incurred	(1,966)	–	–	–	(1,966)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	–	(1)	–	–	(1)
Impairment losses on property, plant and equipment	(4)	–	–	–	(4)
Amortisation of acquired in-force business	(64)	–	–	–	(64)
Amortisation of customer relationships	(6)	(3)	–	–	(9)
	(74)	(4)	–	–	(78)
Other operating expenses:					
Recurring	(540)	(46)	(4)	34	(556)
Non-recurring	(22)	(3)	(4)	–	(29)
	(562)	(49)	(8)	34	(585)
Total operating expenses	(2,602)	(53)	(8)	34	(2,629)
Profit/(loss) before finance costs and tax	103	13	(11)	–	105
Finance costs	(62)	–	(56)	–	(118)
Profit/(loss) before tax	41	13	(67)	–	(13)
Tax attributable to policyholders' returns	(16)	–	–	–	(16)
Segmental result before the tax attributable to owners	25	13	(67)	–	(29)

Notes to the condensed consolidated interim financial statements continued

3. Segmental analysis (continued)

3.1 Segmental result (continued)

Half year ended 30 June 2011

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	668	–	–	–	668
Other segment	–	–	–	–	–
	668	–	–	–	668
Fees from:					
External customers	45	41	–	–	86
Other segment	–	26	–	(26)	–
	45	67	–	(26)	86
Net investment income:					
Recurring	1,506	–	13	–	1,519
Offset interest income on interest swaps against interest expenses	–	–	(19)	–	(19)
	1,506	–	(6)	–	1,500
Other operating income:					
Recurring	6	–	–	–	6
Net income	2,225	67	(6)	(26)	2,260
Net policyholder claims and benefits incurred:					
Recurring	(1,534)	–	–	–	(1,534)
Non-recurring	35	–	–	–	35
	(1,499)	–	–	–	(1,499)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	(5)	(2)	–	–	(7)
Amortisation of acquired in-force business	(67)	–	–	–	(67)
Amortisation of customer relationships	(6)	(3)	–	–	(9)
	(78)	(5)	–	–	(83)
Other operating expenses:					
Recurring	(396)	(47)	(33)	26	(450)
Non-recurring	(30)	–	8	–	(22)
	(426)	(47)	(25)	26	(472)
Total operating expenses	(2,003)	(52)	(25)	26	(2,054)
Profit/(loss) before finance costs and tax	222	15	(31)	–	206
Finance costs	(57)	–	(74)	–	(131)
Offset interest income on interest swaps against interest expense	–	–	19	–	19
	(57)	–	(55)	–	(112)
Profit before tax	165	15	(86)	–	94
Tax attributable to policyholders' returns	(25)	–	–	–	(25)
Segmental result before the tax attributable to owners	140	15	(86)	–	69

Year ended 31 December 2011

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	1,388	–	–	–	1,388
Other segment	–	–	–	–	–
	1,388	–	–	–	1,388
Fees from:					
External customers	94	76	–	–	170
Other segment	–	69	–	(69)	–
	94	145	–	(69)	170
Net investment income:					
Recurring	4,911	1	8	–	4,920
Offset interest income on interest swaps against interest expenses	–	–	(19)	–	(19)
	4,911	1	(11)	–	4,901
Other operating income:					
Recurring	12	–	–	–	12
Net income	6,405	146	(11)	(69)	6,471
Net policyholder claims and benefits incurred:					
Recurring	(5,879)	–	–	–	(5,879)
Non-recurring	35	–	–	–	35
	(5,844)	–	–	–	(5,844)
Depreciation, impairment and amortisation:					
Depreciation of property, plant and equipment	–	(3)	–	–	(3)
Impairment losses on property, plant and equipment	(8)	–	–	–	(8)
Amortisation of acquired in-force business	(134)	–	–	–	(134)
Amortisation of customer relationships	(13)	(5)	–	–	(18)
	(155)	(8)	–	–	(163)
Other operating expenses:					
Recurring	(136)	(97)	(51)	69	(215)
Non-recurring	(50)	(2)	31	–	(21)
	(186)	(99)	(20)	69	(236)
Total operating expenses	(6,185)	(107)	(20)	69	(6,243)
Profit/(loss) before finance costs and tax	220	39	(31)	–	228
Finance costs	(122)	–	(129)	–	(251)
Offset interest income on interest swaps against interest expenses	–	–	19	–	19
	(122)	–	(110)	–	(232)
Profit/(loss) before tax	98	39	(141)	–	(4)
Tax attributable to policyholders' returns	(173)	–	–	–	(173)
Segmental result before the tax attributable to owners	(75)	39	(141)	–	(177)

Notes to the condensed consolidated interim financial statements continued

3. Segmental analysis (continued)

3.2 Reconciliation of operating profit/(loss) before adjusting items to the segmental result

Half year ended 30 June 2012

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Total £m
Operating profit/(loss) before adjusting items	**205**	**19**	**(17)**	**207**
Investment return variances and economic assumption changes on long-term business	**(82)**	**–**	**–**	**(82)**
Variance on owners' funds	**(12)**	**–**	**10**	**(2)**
Amortisation of acquired in-force business	**(58)**	**–**	**–**	**(58)**
Amortisation of customer relationships	**(6)**	**(3)**	**–**	**(9)**
Non-recurring items	**(22)**	**(3)**	**(4)**	**(29)**
Finance costs attributable to owners	**–**	**–**	**(56)**	**(56)**
Segment result before the tax attributable to owners	**25**	**13**	**(67)**	**(29)**

Non-recurring items include:

- restructuring costs of £8 million; and
- regulatory change and systems transformation costs of £21 million.

Half year ended 30 June 2011

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Total £m
Operating profit/(loss) before adjusting items	152	18	(34)	136
Investment return variances and economic assumption changes on long-term business	47	–	–	47
Variance on owners' funds	2	–	(5)	(3)
Amortisation of acquired in-force business	(60)	–	–	(60)
Amortisation of customer relationships	(6)	(3)	–	(9)
Non-recurring items	5	–	8	13
Finance costs attributable to owners	–	–	(55)	(55)
Segment result before the tax attributable to owners	140	15	(86)	69

Non-recurring items include:

- costs associated with the Phoenix Life site rationalisation, associated staff reductions and other restructuring of £21 million;
- regulatory change and systems transformation costs of £7 million;
- a gain of £10 million arising from closing the Group's pension schemes to future accrual; and
- a gain of £35 million following the recovery of historic costs under the management services agreements with the life division.

Year ended 31 December 2011

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Total £m
Operating profit/(loss) before adjusting items	395	46	(54)	387
Investment return variances and economic assumption changes on long-term business	(338)	–	–	(338)
Variance on owners' funds	17	–	(8)	9
Amortisation of acquired in-force business	(121)	–	–	(121)
Amortisation of customer relationships	(13)	(5)	–	(18)
Non-recurring items	(15)	(2)	31	14
Finance costs attributable to owners	–	–	(110)	(110)
Segment result before the tax attributable to owners	(75)	39	(141)	(177)

Non-recurring items include:

- restructuring costs of £37 million;
- regulatory change and systems transformation costs of £21 million;
- a gain of £37 million arising from closing the Group's pension schemes to future accrual and implementing a pension increase exchange programme; and
- a £35 million recovery of historic costs under the management services agreements with the life division.

3.3 Investment return variances and economic assumption changes

The long-term nature of much of the Group's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. This note explains the methodology behind this.

Life assurance business

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

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

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

The investment variances and economic assumption changes excluded from the long-term business operating profit in the current year reflects the impact of movements in equities, property and yields partly offset by narrowing credit spreads on corporate bonds.

Notes to the condensed consolidated interim financial statements continued

3. Segmental analysis (continued)

Owners' funds

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

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

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Variance on owners' funds of:			
Subsidiary undertakings	**(3)**	(4)	7
The Company	**1**	1	2
	(2)	(3)	9

The variances on owners' funds of the Company comprise fair value gains arising from movements in the fair value of warrants in issue over the Company's shares.

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 same margins are applied on a consistent basis across the Group to gross risk-free yields (being the 15 year gilt rate plus 10 basis points), to obtain investment return assumptions for equities and properties.

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

	Half year ended 30 Jun 2012 %	Half year ended 30 Jun 2011 %	Year ended 31 Dec 2011 %
Equities	**5.6**	7.1	7.1
Properties	**4.6**	6.1	6.1
Other fixed interest	**3.6**	4.6	4.6
Gilts	**2.6**	4.0	4.0

4. Tax (credit)/charge

4.1 Current period tax (credit)/charge

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Current tax:			
UK Corporation tax	**17**	16	68
Overseas tax	**11**	3	16
	28	19	84
Adjustment in respect of prior years	**6**	(48)	(57)
	34	(29)	27
Deferred tax:			
Reversal/origination of temporary differences:			
On non-profit surpluses	**(2)**	10	(9)
On amortisation of acquired in-force business	**(19)**	(23)	(44)
On amortisation of customer relationships intangible	**(2)**	(3)	(5)
On unrealised gains	**–**	3	–
Capital allowances in excess of depreciation	**–**	–	6
Other temporary differences	**(2)**	–	3
On accrued interest	**(16)**	–	7
Tax losses arising in the current year carried forward	**(11)**	–	–
Pension scheme movements	**4**	8	30
On provisions for future expenditure	**(1)**	2	2
Utilisation of tax losses	**35**	40	131
Change in rate of Corporation tax	**(20)**	(20)	(41)
Valuation of previously unrecognised deferred tax assets	**(22)**	(2)	(13)
	(56)	15	67
Total tax (credit)/charge	**(22)**	(14)	94
Attributable to:			
Policyholders	**16**	25	173
Owners	**(38)**	(39)	(79)
	(22)	(14)	94

The Group, as a proxy for policyholders in the UK, is required to pay taxes on policyholder investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in income tax. The tax charge attributable to policyholder earnings was £16 million (half year ended 30 June 2011: £25 million; year ended 31 December 2011: £173 million).

Notes to the condensed consolidated interim financial statements continued

4. Tax (credit)/charge (continued)

4.2 Tax (credited)/charged to other comprehensive income

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Deferred tax credit on defined benefit schemes	**(3)**	(9)	(1)

4.3 Reconciliation of tax (credit)/charge

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
(Loss)/profit before tax	**(13)**	94	(4)
Policyholder tax charge	**(16)**	(25)	(173)
(Loss)/profit before the tax attributable to owners	**(29)**	69	(177)
Tax (credit)/charge at standard UK[1] rate of 24.5% (2011: 26.5%)	**(7)**	18	(47)
Untaxed income and gains	**–**	(18)	(7)
Disallowable expenses	**–**	1	3
Adjustment to tax charge in respect of prior years	**16**	(48)	(57)
Movement on acquired in-force amortisation at less than 24.5% (2011: 26.5%)	**1**	–	3
Movement in non-profit surplus taxed at less than 24.5% (2011: 26.5%)	**–**	14	13
Profits taxed at rates other than 24.5% (2011: 26.5%)	**(11)**	2	19
Tax on losses not previously valued	**(22)**	(13)	(11)
Prior year deferred tax	**1**	8	20
Deferred tax rate change	**(20)**	(20)	(41)
Current year losses not valued	**2**	28	3
Temporary differences not valued	**4**	(7)	27
Other	**(2)**	(4)	(4)
Owners' tax credit	**(38)**	(39)	(79)
Policyholder tax charge	**16**	25	173
Total tax (credit)/charge for the period	**(22)**	(14)	94

1 The Group's two operating segments operate 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.

A gradual reduction in the UK corporation tax rate from 28% to 24% over four years was announced in the Emergency Budget of 22 June 2010 with further 1% reductions being announced in each of the Budgets of 23 March 2011 and 21 March 2012. The first 4% of the reductions had been substantively enacted by the half year. Consequently a rate of 24% has been used for the purposes of providing for deferred tax in this interim report. Further reductions are to be introduced by future legislation. The benefit to the Group's IFRS net assets arising from the further 2% reduction in the tax rate is estimated as £38 million in total and will be recognised as the legislation is substantively enacted.

Following an initial announcement by HMRC in March 2011, the Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The Group has conducted an assessment of the likely impact of the new rules based on 2011 year end information, which suggests that the effect of the transition to the new regime will not have a material impact on the Group's overall tax position. However, the final impact of the transition will depend on the Group life companies' position as at 31 December 2012.

5. Earnings per share

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

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Profit/(loss) for the period	**9**	108	(98)
Share of result attributable to non-controlling interests	**(7)**	(18)	(33)
Profit/(loss) attributable to owners	**2**	90	(131)

The basic earnings per share of 1.1p (half year ended 30 June 2011: 52.3p; year ended 31 December 2011: (76.2)p) has been based on the profit of £2 million (half year ended 30 June 2011: profit of £90 million; year ended 31 December 2011: loss of £131 million) and a weighted average number of ordinary shares outstanding during the period of 174 million (half year ended 30 June 2011: 172 million; year ended 31 December 2011: 172 million), calculated as follows:

	Half year ended 30 Jun 2012 No. million	Half year ended 30 Jun 2011 No. million	Year ended 31 Dec 2011 No. million
Issued ordinary shares at beginning of the period	**174**	171	171
Effect of ordinary shares issued	**–**	1	1
Weighted average number of ordinary shares	**174**	172	172

The diluted earnings per share of 1.1p (half year ended 30 June 2011: 52.3p; year ended 31 December 2011: (76.2)p) has been based on the profit of £2 million (half year ended 30 June 2011: profit of £90 million; year ended 31 December 2011: loss of £131 million) and a diluted weighted average number of ordinary shares outstanding during the period of 174 million (half year ended 30 June 2011: 172 million; year ended 31 December 2011: 172 million), calculated as follows:

	Half year ended 30 Jun 2012 No. million	Half year ended 30 Jun 2011 No. million	Year ended 31 Dec 2011 No. million
Weighted average number of ordinary shares	**174**	172	172
Effect of warrants in issue	**–**	–	–
Weighted average number of ordinary shares (diluted)	**174**	172	172

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 the Lenders on 2 September 2009;
- 12.36 million warrants issued to Royal London on 2 September 2009; and
- IPO warrants, the exercise price of which was increased from €7 to €11 on 2 September 2009.

Notes to the condensed consolidated interim financial statements continued

6. Share capital

	30 Jun 2012 £	30 Jun 2011 £	31 Dec 2011 £
Authorised:			
410 million (30 June 2011: 410 million; 31 December 2011: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750	31,750
Issued and fully paid:			
174.6 million (30 June 2011: 172.6 million; 31 December 2011: 174.5 million) ordinary shares of €0.0001 each	**14,174**	14,001	14,165

Movements in share capital during the period:

	Number	£
Shares in issue at 1 January 2012	**174,472,815**	**14,165**
Ordinary shares issued for scrip dividend (note 7)	**114,333**	**9**
Shares in issue at 30 June 2012	**174,587,148**	**14,174**

	Number	£
Shares in issue at 1 January 2011	171,455,610	13,904
Ordinary shares issued for scrip dividend	1,086,927	96
Other ordinary shares issued in the period	11,178	1
Shares in issue at 30 June 2011	172,553,715	14,001
Ordinary shares issued for scrip dividend	1,918,166	164
Other ordinary shares issued in the period	934	–
Shares in issue at 31 December 2011	174,472,815	14,165

7. Dividends on ordinary shares

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Dividend paid in 2012 at 21p per share (half year ended 30 June 2011: 21p; year ended 31 December 2011: 42p)	**37**	36	72

On 22 March 2012, the Board recommended a dividend of 21p per share in respect of the year ended 31 December 2011. The dividend was approved at the Company's Annual General Meeting, which was held on 3 May 2012. A scrip dividend option was available to shareholders and the dividend was settled on 8 May 2012. The value of the dividend that was settled via the scrip dividend option was £1 million.

8. Non-controlling interests

	Perpetual Reset Capital Securities £m	**UK Commercial Property Trust Limited £m**	**Total £m**
At 1 January 2012	**407**	**307**	**714**
Profit/(loss) for the period	**10**	**(3)**	**7**
Dividends paid	**–**	**(11)**	**(11)**
Coupons paid, net of tax relief	**(19)**	**–**	**(19)**
Shares purchased by non-controlling interest	**–**	**35**	**35**
At 30 June 2012	**398**	**328**	**726**

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January 2011	411	309	720
Profit for the period	7	11	18
Dividends paid	–	(11)	(11)
Coupons paid, net of tax relief	(19)	–	(19)
Effect of share transactions	–	3	3
At 30 June 2011	399	312	711
Profit for the period	8	7	15
Dividends paid	–	(10)	(10)
Effect of share transactions	–	(2)	(2)
At 31 December 2011	407	307	714

Notes to the condensed consolidated interim financial statements continued

8. Non-controlling interests (continued)

8.1 Perpetual Reset Capital Securities

On 1 January 2012, Pearl Group Holdings (No.1) Limited ('PGH1') had in issue £425 million Perpetual Reset Capital Securities ('the Notes'). Following amendments made to the Notes during 2010, the aggregate amount payable on redemption of the Notes is £425 million. On 26 April 2012, the 2012 coupon that was due on the Notes was settled in full by PGH1, other than to two companies within the Group which waived their right to receive that coupon.

8.2 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.

Following a bookbuilding process, the Group disposed of an aggregate of 47,826,087 shares in UKCPT (amounting to 4% of the issued share capital of UKCPT) at a price of 69p per share on 21 March 2012. Following completion of the sale the Group now holds 62% of the issued share capital of UKCPT.

9. Pension schemes

The condensed statement of consolidated financial position incorporates the reported surplus of the PGL Pension Scheme and the Pearl Group Staff Pension Scheme at 30 June 2012 respectively. The reported surplus of the PGL Pension Scheme amounted to £237 million (30 June 2011: £80 million, 31 December 2011: £277 million); this has been adjusted by £92 million (30 June 2011: £74 million, 31 December 2011: £94 million) to eliminate on consolidation the carrying value of insurance policies effected by the PGL Pension Scheme with the Group. The reported surplus of the Pearl Group Staff Pension Scheme amounted to £20 million (30 June 2011: deficit £62 million, 31 December 2011: surplus £37 million). The reported surplus is equivalent to the net surplus less 35% tax payable on the winding up of the schemes.

In November 2011, following formal consultation, the Group carried out a pension increase exchange ('PIE') exercise where existing in-scope pensioners were offered the option to exchange future non-statutory pension increases for benefits accrued before 6 April 1997 for higher, non-increasing pensions, thereby reducing longevity and inflation risk for the Group. The Pearl Group Staff Pension Scheme and the PGL Pension Scheme PIE exercises formally closed in February 2012. The financial effect of all acceptances in the period, and any reversals of acceptances received at 31 December 2011, has been recognised in the consolidated financial statements. A reduction in scheme liabilities of £3 million for the Pearl Group Staff Scheme (31 December 2011: £16 million) and £2 million for the PGL Pension Scheme (31 December 2011: £11 million) is shown as a negative past service cost in the income statement.

In November 2011, the Group commenced an Enhanced Transfer Value ('ETV') exercise which offered in-scope deferred members of the PGL Pension Scheme the option to take an Equivalent Cash Transfer Value to exit the Scheme, thereby extinguishing any future liability and risk for the Group with respect to these members. The financial effect of all completed transfers up to 30 June 2012 has been recognised in the consolidated financial statements. As at 30 June 2012, ETVs of £33 million had been paid out, reducing scheme assets, and there was a resulting reduction in the scheme liabilities of £27 million. The net settlement cost of £6 million has been recognised in the income statement.

10. Liabilities under insurance contracts – assumptions

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 in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability as required by FRS 27 *Life Assurance*. 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.

Valuation of non-participating insurance contracts

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

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, no material changes were made to assumptions (half year ended 30 June 2011: no material changes). The impacts of material changes during the year ended 31 December 2011 were as follows:

	(Decrease)/ increase in insurance liabilities 31 Dec 2011 £m
Change in longevity assumptions	(72)
Change in persistency assumptions	18
Change in expense assumptions	(25)

11. Borrowings

	30 Jun 2012 £m	30 Jun 2011 £m	31 Dec 2011 £m
Carrying value			
Limited recourse bonds 2012 7.39%	**11**	28	11
Limited recourse bonds 2022 7.59%	**90**	94	90
Property reversions loan	**211**	226	217
£80 million facility agreement	**80**	80	80
£150 million term facility	**120**	25	60
Total policyholder borrowings	**512**	453	458
£200 million 7.25% unsecured subordinated loan	**139**	131	135
Unsecured loan notes	**5**	9	7
£2,260 million syndicated loan	**1,915**	2,055	1,993
£100 million PIK notes and facility	**114**	109	111
£75 million secured loan note	**74**	72	73
£425 million loan facility	**351**	375	375
Total shareholder borrowings	**2,598**	2,751	2,694
Total borrowings	**3,110**	3,204	3,152

During the period, UK Commercial Property Trust Limited ('UKCPT') drew down a further £60 million of its £150 million term facility agreement in order to increase its property portfolio. The £150 million investment term loan facility agreement accrues interest at LIBOR plus a variable margin of 1.60% to 2.00% per annum. The lender holds security over the assets of UK Commercial Property Estates Holdings Limited and UK Commercial Property Estates Limited, both of which are subsidiaries of UKCPT. The repayment date for this facility is 19 May 2018. As at 30 June 2012 the amount drawn down was £120 million.

On 30 January 2012, a prepayment of £15 million was made on the £2,260 million syndicated loan and on 27 April 2012 a scheduled repayment of £63 million was also made on the same facility.

On 30 June 2012, a scheduled repayment of £24 million was made on the £425 million syndicated loan.

Notes to the condensed consolidated interim financial statements continued

12. Fair value hierarchy

12.1 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2012	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets				
Derivative assets	**–**	**5,072**	**26**	**5,098**
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	**9,751**	**52**	**837**	**10,640**
Fixed and variable rate income securities	**32,041**	**10,549**	**879**	**43,469**
Collective investment schemes	**4,724**	**1,000**	**207**	**5,931**
	46,516	**11,601**	**1,923**	**60,040**
Total financial assets	**46,516**	**16,673**	**1,949**	**65,138**
Financial liabilities				
Derivative liabilities	**–**	**3,953**	**5**	**3,958**
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	**–**	**7,933**	**–**	**7,933**
Borrowings	**–**	**211**	**–**	**211**
Net asset value attributable to unitholders	**4,161**	**–**	**173**	**4,334**
	4,161	**8,144**	**173**	**12,478**
Total financial liabilities	**4,161**	**12,097**	**178**	**16,436**

At 30 June 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets				
Derivative assets	–	2,623	86	2,709
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	11,153	29	809	11,991
Fixed and variable rate income securities	34,369	5,350	573	40,292
Collective investment schemes	5,338	1,026	264	6,628
	50,860	6,405	1,646	58,911
Total financial assets	50,860	9,028	1,732	61,620
Financial liabilities				
Derivative liabilities	–	2,183	11	2,194
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	–	8,701	–	8,701
Borrowings	–	226	–	226
Net asset value attributable to unitholders	2,030	–	167	2,197
	2,030	8,927	167	11,124
Total financial liabilities	2,030	11,110	178	13,318

At 31 December 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets				
Derivative assets	–	6,038	61	6,099
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	10,222	42	814	11,078
Fixed and variable rate income securities	31,592	9,556	862	42,010
Collective investment schemes	4,976	1,043	232	6,251
	46,790	10,641	1,908	59,339
Total financial assets	46,790	16,679	1,969	65,438
Financial liabilities				
Derivative liabilities	–	4,292	–	4,292
Financial assets designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	–	7,978	–	7,978
Borrowings	–	217	–	217
Net asset value attributable to unitholders	3,040	–	169	3,209
	3,040	8,195	169	11,404
Total financial liabilities	3,040	12,487	169	15,696

12.2 Movement in Level 3 financial instruments measured at fair value

At 30 June 2012	**At 1 Jan 2012 £m**	**Total (losses)/gains in income statement £m**	**Purchases and sales £m**	**Transfers from/(to) Level 1 and Level 2 £m**	**At 30 Jun 2012 £m**
Financial assets					
Derivative assets	**61**	**(18)**	**(17)**	**–**	**26**
Financial assets designated at fair value through profit or loss upon initial recognition					
Equities	**814**	**16**	**–**	**7**	**837**
Fixed and variable rate income securities	**862**	**(29)**	**–**	**46**	**879**
Collective investment schemes	**232**	**(30)**	**5**	**–**	**207**
	1,908	**(43)**	**5**	**53**	**1,923**
Total financial assets	**1,969**	**(61)**	**(12)**	**53**	**1,949**

At 30 June 2012	**At 1 Jan 2012 £m**	**Total losses/(gains) in income statement £m**	**Purchases and sales £m**	**Transfers from/(to) Level 1 and Level 2 £m**	**At 30 Jun 2012 £m**
Financial liabilities					
Derivative liabilities	**–**	**7**	**(2)**	**–**	**5**
Financial liabilities designated at fair value through profit or loss upon initial recognition					
Net asset value attributable to unitholders	**169**	**4**	**–**	**–**	**173**
Total financial liabilities	**169**	**11**	**(2)**	**–**	**178**

Notes to the condensed consolidated interim financial statements continued

12. Fair value hierarchy (continued)

12.2 Movement in Level 3 financial instruments measured at fair value (continued)

At 30 June 2011	At 1 Jan 2011 £m	Total gains/ (losses) in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 30 Jun 2011 £m
Financial assets					
Derivative assets	89	(3)	–	–	86
Financial assets designated at fair value through profit or loss upon initial recognition					
Equities	793	32	(16)	–	809
Fixed and variable rate income securities	747	70	(75)	(169)	573
Collective investment schemes	316	1	(54)	1	264
	1,856	103	(145)	(168)	1,646
Total financial assets	1,945	100	(145)	(168)	1,732

At 30 June 2011	At 1 Jan 2011 £m	Total (gains)/ losses in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 30 Jun 2011 £m
Financial liabilities					
Derivative liabilities	11	–	–	–	11
Financial liabilities designated at fair value through profit or loss upon initial recognition					
Net asset value attributable to unitholders	168	(1)	–	–	167
Total financial liabilities	179	(1)	–	–	178

At 31 December 2011	At 1 Jan 2011 £m	Total gains/ (losses) in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 31 Dec 2011 £m
Financial assets					
Derivative assets	89	(17)	(11)	–	61
Financial assets designated at fair value through profit or loss upon initial recognition					
Equities	793	29	(10)	2	814
Fixed and variable rate income securities	747	9	(3)	109	862
Collective investment schemes	316	(2)	(82)	–	232
	1,856	36	(95)	111	1,908
Total financial assets	1,945	19	(106)	111	1,969

At 31 December 2011	At 1 Jan 2011 £m	Total (gains)/ losses in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 31 Dec 2011 £m
Financial liabilities					
Derivative liabilities	11	(11)	–	–	–
Financial liabilities designated at fair value through profit or loss upon initial recognition					
Net asset value attributable to unitholders	168	1	–	–	169
Total financial liabilities	179	(10)	–	–	169

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

13. Cash flows from operating activities

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
(Loss)/profit for the period before tax	**(13)**	94	(4)
Non-cash movements in (loss)/profit for the period before tax			
Fair value losses/(gains) on:			
Investment property	**40**	(16)	(4)
Financial assets	**(226)**	203	(1,572)
Change in fair value of borrowings	**10**	18	20
Depreciation of property, plant and equipment	**1**	7	3
Impairment of owner occupied property	**4**	–	8
Amortisation of intangible assets	**73**	76	152
Change in present value of future profit	**–**	6	19
Change in unallocated surplus	**–**	29	(16)
Share-based payment charge	**–**	–	4
Interest expense on borrowings	**118**	131	251
Net expected return on pension schemes	**4**	6	11
Other gains on pension schemes	**1**	–	(37)
Decrease in investment assets	**2,063**	1,687	1,400
Decrease/(increase) in reinsurance assets	**139**	52	(201)
(Decrease)/increase in insurance contract and investment contract liabilities	**(629)**	(1,055)	450
(Decrease)/increase in deposits received from reinsurers	**(5)**	(11)	53
(Decrease)/increase in obligation for repayment of collateral received	**(603)**	(9)	2,845
Net (increase)/decrease in working capital	**(62)**	(33)	310
Cash generated by operations	**915**	1,185	3,692

14. 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 2011.

There were no transactions with related parties during the six months ended 30 June 2012 which have had a material effect on the results or financial position of the Group.

15. Contingent liabilities

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration, and as at the period end, the Group has no material contingent liabilities in this regard.

16. Events after the reporting period

On 22 August 2012, the Board declared an interim dividend per share of 21p for the half year ended 30 June 2012. The cost of this dividend has not been recognised as a liability in the interim financial statements for the period to 30 June 2012 and will be charged to the statement of consolidated changes in equity when paid.

On 27 June 2012 the Group announced that it had entered into a reinsurance agreement, effective 1 July 2012, to transfer approximately £5 billion of annuity in-payment liabilities, around 40% of the Group's annuity portfolio, to Guardian Financial Services ('Guardian'). On 5 July 2012, the Group made an associated transfer of £4.9 billion of assets to Guardian as the related reinsurance premium for the transferred annuity liabilities.

It is expected that the reinsurance agreement will be replaced by a formal Part VII transfer of the annuity liabilities to Guardian in 2013.

Phoenix Group and Guardian have agreed terms for Ignis Asset Management to continue to provide investment management services to Guardian in respect of assets backing the transferred annuity in-payment liabilities.

As the effective date of the reinsurance agreement is 1 July 2012, the transaction is a non-adjusting post balance sheet event and is not reflected in the half year IFRS financial statements. The reinsurance agreement is not expected to have a material impact on the full year 2012 recurring IFRS operating profit. As the annuity liabilities include prudential margins under IFRS a non-recurring positive impact (net of any write down of associated intangible assets) is expected in the second half of the year which will be reported outside of operating profit. The exact amount of the impact is subject to the progress of the expected Part VII transfer which is expected to take place in the second half of 2013.

Additional life company asset disclosures

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies including stock lending collateral. It excludes other Group assets such as cash held in the holding and service companies and Ignis; the assets held by the non-controlling interest in collective investment schemes and UKCPT; and is 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 2012

Carrying value	Shareholder and non-profit funds[1] £m	Participating[1] supported £m	Participating[2] non-supported £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	**2,731**	**993**	**9,531**	**1,032**	**14,287**
Debt securities – gilts	**3,221**	**1,809**	**11,582**	**878**	**17,490**
Debt securities – bonds	**7,528**	**2,221**	**10,143**	**926**	**20,818**
Equity securities	**360**	**14**	**6,326**	**7,234**	**13,934**
Property investments	**143**	**148**	**648**	**294**	**1,233**
Other investments[4]	**1,341**	**(106)**	**3,334**	**26**	**4,595**
As at 30 June 2012	**15,324**	**5,079**	**41,564**	**10,390**	**72,357**

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 repurchase loans of £2,277 million, other loans of £217 million, net derivatives of £1,132 million and other investments of £969 million.

31 December 2011

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	3,280	965	7,493	1,035	12,773
Debt securities – gilts	3,202	1,883	12,093	886	18,064
Debt securities – bonds	7,570	2,279	10,099	870	20,818
Equity securities	390	17	6,631	7,436	14,474
Property investments	153	184	759	306	1,402
Other investments[1]	1,687	(79)	4,173	35	5,816
As at 31 December 2011	16,282	5,249	41,248	10,568	73,347

1 Includes repurchase loans of £3,003 million, policy loans of £15 million, other loans of £41 million, net derivatives of £1,797 million and other investments of £960 million.

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

30 June 2012

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	**3,221**	**1,809**	**11,582**	**878**	**17,490**
Other government and supranational[1]	**1,367**	**657**	**1,858**	**154**	**4,036**
Corporate – financial institutions	**2,293**	**671**	**3,758**	**204**	**6,926**
Corporate – other	**3,580**	**520**	**3,559**	**553**	**8,212**
Asset backed securities ('ABS')	**288**	**373**	**968**	**15**	**1,644**
As at 30 June 2012	**10,749**	**4,030**	**21,725**	**1,804**	**38,308**

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

31 December 2011

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	3,202	1,883	12,093	886	18,064
Other government and supranational	1,460	670	2,151	169	4,450
Corporate – financial institutions	2,230	666	3,603	206	6,705
Corporate – other	3,547	481	3,112	480	7,620
Asset backed securities ('ABS')	333	462	1,233	15	2,043
As at 31 December 2011	10,772	4,162	22,192	1,756	38,882

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

30 June 2012

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**3,237**	**1,810**	**11,681**	**880**	**17,608**
European Investment Bank	**508**	**366**	**621**	**53**	**1,548**
USA	**35**	**17**	**34**	**35**	**121**
Germany	**707**	**233**	**869**	**20**	**1,829**
France	**9**	**–**	**21**	**2**	**32**
Netherlands	**60**	**–**	**51**	**4**	**115**
Portugal	**–**	**–**	**–**	**–**	**–**
Italy	**–**	**–**	**–**	**3**	**3**
Ireland	**–**	**–**	**–**	**–**	**–**
Greece	**–**	**–**	**–**	**–**	**–**
Spain	**–**	**5**	**12**	**1**	**18**
Other – non-Eurozone	**11**	**25**	**114**	**31**	**181**
Other – Eurozone	**21**	**10**	**37**	**3**	**71**
As at 30 June 2012	**4,588**	**2,466**	**13,440**	**1,032**	**21,526**

Additional life company asset disclosures continued

31 December 2011

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	3,211	1,884	12,112	887	18,094
European Investment Bank	525	365	862	57	1,809
USA	35	16	34	30	115
Germany	673	245	936	29	1,883
France	119	–	72	5	196
Netherlands	27	–	24	3	54
Portugal	–	–	–	–	–
Italy	1	–	93	6	100
Ireland	–	–	2	–	2
Greece	–	–	–	–	–
Spain	–	8	36	2	46
Other – non-Eurozone	10	25	34	30	99
Other – Eurozone	61	10	39	6	116
As at 31 December 2011	4,662	2,553	14,244	1,055	22,514

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

30 June 2012

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	**1,326**	**525**	**2,097**	**146**	**4,094**
USA	**360**	**67**	**538**	**19**	**984**
Germany	**33**	**3**	**78**	**–**	**114**
France	**70**	**9**	**101**	**4**	**184**
Netherlands	**287**	**49**	**682**	**35**	**1,053**
Portugal	**–**	**–**	**–**	**–**	**–**
Italy	**2**	**3**	**10**	**–**	**15**
Ireland	**72**	**1**	**9**	**–**	**82**
Greece	**–**	**–**	**–**	**–**	**–**
Spain	**8**	**2**	**17**	**–**	**27**
Other – non-Eurozone	**77**	**9**	**125**	**–**	**211**
Other – Eurozone	**58**	**3**	**101**	**–**	**162**
As at 30 June 2012	**2,293**	**671**	**3,758**	**204**	**6,926**

31 December 2011

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	1,171	504	1,962	126	3,763
USA	326	73	447	18	864
Germany	46	1	58	–	105
France	143	20	287	12	462
Netherlands	313	46	559	40	958
Portugal	–	–	–	–	–
Italy	5	3	16	–	24
Ireland	68	1	9	–	78
Greece	–	–	–	–	–
Spain	10	1	23	1	35
Other – non-Eurozone	90	14	147	5	256
Other – Eurozone	58	3	95	4	160
As at 31 December 2011	2,230	666	3,603	206	6,705

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

30 June 2012

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	**1,486**	**266**	**1,793**	**444**	**3,989**
USA	**733**	**70**	**399**	**17**	**1,219**
Germany	**60**	**10**	**142**	**8**	**220**
France	**409**	**79**	**323**	**15**	**826**
Netherlands	**387**	**67**	**393**	**19**	**866**
Portugal	**–**	**–**	**2**	**–**	**2**
Italy	**64**	**2**	**76**	**7**	**149**
Ireland	**9**	**–**	**11**	**–**	**20**
Greece	**6**	**–**	**2**	**–**	**8**
Spain	**54**	**–**	**59**	**5**	**118**
Other – non-Eurozone	**124**	**20**	**159**	**15**	**318**
Other – Eurozone	**248**	**6**	**200**	**23**	**477**
As at 30 June 2012	**3,580**	**520**	**3,559**	**553**	**8,212**

31 December 2011

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	1,391	244	1,556	381	3,572
USA	787	70	357	15	1,229
Germany	56	2	65	6	129
France	408	82	342	18	850
Netherlands	403	56	374	24	857
Portugal	–	–	–	–	–
Italy	67	3	71	6	147
Ireland	10	–	9	–	19
Greece	8	–	2	–	10
Spain	105	3	80	6	194
Other – non-Eurozone	95	19	129	10	253
Other – Eurozone	217	2	127	14	360
As at 31 December 2011	3,547	481	3,112	480	7,620

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

30 June 2012

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	**250**	**275**	**646**	**15**	**1,186**
USA	**31**	**–**	**28**	**–**	**59**
Germany	**1**	**16**	**70**	**–**	**87**
France	**–**	**1**	**4**	**–**	**5**
Netherlands	**6**	**52**	**135**	**–**	**193**
Portugal	**–**	**–**	**–**	**–**	**–**
Italy	**–**	**10**	**31**	**–**	**41**
Ireland	**–**	**6**	**16**	**–**	**22**
Greece	**–**	**–**	**–**	**–**	**–**
Spain	**–**	**7**	**20**	**–**	**27**
Other – non-Eurozone	**–**	**6**	**18**	**–**	**24**
Other – Eurozone	**–**	**–**	**–**	**–**	**–**
As at 30 June 2012	**288**	**373**	**968**	**15**	**1,644**

Additional life company asset disclosures continued

31 December 2011

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	273	321	802	15	1,411
USA	29	–	35	–	64
Germany	5	44	139	–	188
France	–	10	25	–	35
Netherlands	3	36	98	–	137
Portugal	–	–	2	–	2
Italy	–	10	31	–	41
Ireland	18	19	48	–	85
Greece	–	–	–	–	–
Spain	5	18	33	–	56
Other – non-Eurozone	–	4	20	–	24
Other – Eurozone	–	–	–	–	–
As at 31 December 2011	333	462	1,233	15	2,043

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

30 June 2012

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	**4,852**	**2,853**	**13,780**	**731**	**22,216**
AA	**725**	**301**	**1,482**	**80**	**2,588**
A	**1,977**	**601**	**2,436**	**157**	**5,171**
BBB	**1,885**	**240**	**2,448**	**208**	**4,781**
BB	**128**	**27**	**251**	**13**	**419**
B and below	**522**	**1**	**71**	**–**	**594**
Non-rated	**660**	**7**	**1,257**	**615**	**2,539**
As at 30 June 2012	**10,749**	**4,030**	**21,725**	**1,804**	**38,308**

31 December 2011

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	5,067	2,977	15,190	768	24,002
AA	701	264	1,005	89	2,059
A	1,997	638	2,612	148	5,395
BBB	1,615	211	2,236	197	4,259
BB	127	29	230	17	403
B and below	544	1	77	1	623
Non-rated	721	42	842	536	2,141
As at 31 December 2011	10,772	4,162	22,192	1,756	38,882

MCEV supplementary information

56 Statement of Directors' responsibilities
57 Auditor's review report
58 MCEV interim financial statements and notes

Statement of Directors' responsibilities

When compliance with the CFO Forum MCEV principles published 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:

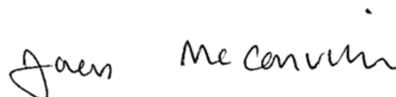
- risk-free rates have been defined as the annually compounded UK Government bond nominal spot curve plus 10 basis points rather than as the swap rate curve;
- the value of asset management and the management service companies has been included on an IFRS basis; and
- no allowance for the costs of residual 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



James McConville
Group Finance Director

St Helier, Jersey
22 August 2012

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 2012 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 58 to 71. 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 Accountants LLP have reported separately on the condensed consolidated financial statements of Phoenix Group Holdings prepared on an IFRS basis for the half year ended 30 June 2012. 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 62 to 65.

Our responsibility

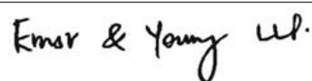
Our responsibilities for the Phoenix Group Holdings MCEV are set out in our engagement letter with you dated 15 June 2011. We report to you our opinion as to whether the Phoenix Group Holdings MCEV in the Interim Report has been properly prepared, in all material respects, in accordance with the Basis of preparation set out on pages 62 to 65.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410. 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 2012 has not been prepared, in all material respects, in accordance with the basis of preparation set out on pages 62 to 65.



Ernst & Young LLP
London

22 August 2012

MCEV interim financial statements and notes

Summarised consolidated income statement – Group MCEV basis

For the half year ended 30 June 2012

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Life MCEV operating earnings	**205**	229	556
Management services operating profit	**10**	10	17
Ignis Asset Management operating profit	**19**	18	46
Group costs	**(29)**	(48)	(84)
Group MCEV operating earnings before tax	**205**	209	535
Economic variances on life business	**(61)**	(5)	(426)
Economic variances on non-life business	**19**	(5)	38
Other non-operating variances on life business	**27**	(1)	(12)
Non-recurring items on non-life business	**(18)**	18	(9)
Finance costs attributable to owners	**(75)**	(75)	(123)
Group MCEV earnings before tax	**97**	141	3
Tax on operating earnings	**(50)**	(56)	(141)
Tax on non-operating earnings	**6**	27	169
Total tax	**(44)**	(29)	28
Group MCEV earnings after tax	**53**	112	31

MCEV earnings per ordinary share

For the half year ended 30 June 2012

	Half year ended 30 Jun 2012	Half year ended 30 Jun 2011	Year ended 31 Dec 2011
Group MCEV operating earnings after tax			
Basic[1]	**89.1p**	89.0p	229.1p
Diluted[2]	**89.1p**	89.0p	229.1p
Group MCEV earnings after tax			
Basic[1]	**30.5p**	65.1p	18.0p
Diluted[2]	**30.5p**	65.1p	18.0p

1 Based on 174 million shares (half year ended 30 June 2011: 172 million; year ended 31 December 2011: 172 million) as set out in note 5 of the IFRS condensed consolidated interim financial statements.

2 Based on 174 million shares (half year ended 30 June 2011: 172 million; year ended 31 December 2011: 172 million), allowing for warrants in issue as set out in note 5 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 average UK corporate tax rate of 24.5% (half year ended 30 June 2011: 26.5%; year ended 31 December 2011: 26.5%).

Statement of consolidated comprehensive income – Group MCEV basis

For the half year ended 30 June 2012

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Group MCEV earnings after tax	**53**	112	31
Other comprehensive income			
Actuarial gains on defined benefit pension scheme (net of tax)	**–**	13	32
Total comprehensive income	**53**	125	63

Reconciliation of movement in equity – Group MCEV basis

For the half year ended 30 June 2012

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Opening Group MCEV equity	**2,118**	2,104	2,104
Total comprehensive income	**53**	125	63
Movement in equity for equity-settled share-based payments	**–**	3	6
Dividends paid on ordinary shares	**(37)**	(36)	(72)
Shares issued in lieu of dividends	**1**	7	17
Total capital and dividend flows – external	**(36)**	(26)	(49)
Closing Group MCEV equity	**2,135**	2,203	2,118

MCEV interim financial statements and notes continued

Group MCEV analysis of earnings

For the half year ended 30 June 2012

	Covered business MCEV £m	Non-covered business Management services IFRS £m	Asset Management IFRS £m	Other Group companies[1] IFRS £m	Group MCEV £m
Group MCEV at 1 January 2012	**3,804**	**82**	**68**	**(1,836)**	**2,118**
Operating MCEV earnings (after tax)	**155**	**8**	**14**	**(22)**	**155**
Non-operating MCEV earnings (after tax)	**(25)**	**(7)**	**(2)**	**(68)**	**(102)**
Total MCEV earnings	**130**	**1**	**12**	**(90)**	**53**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Capital and dividend flows – internal	**(97)**	**6**	**(17)**	**108**	**–**
Capital and dividend flows – external	**–**	**–**	**–**	**(36)**	**(36)**
Closing value at 30 June 2012	**3,837**	**89**	**63**	**(1,854)**	**2,135**

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

For the half year ended 30 June 2011

	Covered business MCEV £m	Non-covered business Management services IFRS £m	Asset Management IFRS £m	Other Group companies IFRS £m	Group MCEV £m
Group MCEV at 1 January 2011	4,517	80	54	(2,547)	2,104
Operating MCEV earnings (after tax)	168	7	13	(35)	153
Non-operating MCEV earnings (after tax)	(5)	26	–	(62)	(41)
Total MCEV earnings	163	33	13	(97)	112
Other comprehensive income	–	–	–	13	13
Capital and dividend flows – internal	(476)	(28)	(7)	511	–
Capital and dividend flows – external	–	–	–	(26)	(26)
Closing value at 30 June 2011	4,204	85	60	(2,146)	2,203

Group MCEV analysis of earnings

For the year ended 31 December 2011

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management IFRS £m	Other Group companies IFRS £m	Group MCEV £m
Group MCEV at 1 January 2011	4,517	80	54	(2,547)	2,104
Operating MCEV earnings (after tax)	409	13	34	(62)	394
Non-operating MCEV earnings (after tax)	(322)	15	(1)	(55)	(363)
Total MCEV earnings	87	28	33	(117)	31
Other comprehensive income	–	–	–	32	32
Capital and dividend flows – internal	(800)	(26)	(19)	845	–
Capital and dividend flows – external	–	–	–	(49)	(49)
Closing value at 31 December 2011	3,804	82	68	(1,836)	2,118

Reconciliation of Group IFRS equity to MCEV net worth

	30 Jun 2012 £m	30 Jun 2011 £m	31 Dec 2011 £m
Group net assets attributable to owners of the parent as reported under IFRS	**1,553**	1,670	1,652
Goodwill and other intangibles in accordance with IFRS removed (net of tax)	**(436)**	(425)	(440)
Value of in-force business in accordance with IFRS removed (net of tax)	**(1,108)**	(1,316)	(1,289)
Adjustments to IFRS reserving	**(43)**	(157)	(47)
Tax adjustments	**(18)**	(63)	8
Revalue listed debt to market value	**167**	82	161
Eliminate value of contingent loan asset[1]	**(160)**	(218)	(160)
Fair value adjustments[2]	**1**	28	(43)
Eliminate pension scheme surpluses[3] (net of tax)	**(312)**	(142)	(380)
Other adjustments	**23**	18	27
MCEV net worth attributable to owners of the parent	**(333)**	(523)	(511)
MCEV value of in-force business included (net of tax) as set out in note 2	**2,468**	2,726	2,629
Closing Group MCEV	**2,135**	2,203	2,118

1 Removal of value attributed to contingent loans issued by holding companies to long-term funds as their expected repayments are captured within the MCEV VIF calculations.

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

3 The pension scheme surpluses removed are the economic surpluses of the Pearl Group Staff Pension Scheme and PGL Pension scheme net of tax as described in note 9 of the IFRS condensed consolidated interim financial statements.

MCEV interim financial statements and notes continued

1. Basis of preparation

Overview

The supplementary information on pages 58 to 71 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 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 a 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 and management service companies' values are calculated on an IFRS basis. 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 non-life holding companies at their IFRS net asset value.

On 27 June 2012 the Group announced that it had entered into a reinsurance agreement, effective 1 July 2012, to transfer approximately £5 billion of annuity in-payment liabilities, around 40% of the Group's annuity portfolio, to Guardian Financial Services ('Guardian'). It is expected that the reinsurance agreement will be replaced by a formal Part VII transfer of the annuity liabilities to Guardian in 2013. The 30 June 2012 Group MCEV allows for the negative impact of the reinsurance agreement of £36 million and the expense savings of £72 million expected following the Part VII transfer of the annuity liabilities to Guardian.

A gradual reduction in the UK corporation tax rate from 28% to 24% over four years was announced in the Emergency Budget of 22 June 2010 with further 1% reductions being announced in each of the Budgets of 23 March 2011 and 21 March 2012. The first 4% of the reductions had been substantively enacted by the half year. Consequently a rate of 24% has been used for the purposes of providing for deferred tax in this interim report. Further reductions are to be introduced by future legislation. The impact on the Group's MCEV arising from the further 2% reduction is not expected to be material and will be recognised as the legislation is substantively enacted.

Following an initial announcement by HMRC in March 2011, the Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The Group has conducted an assessment of the likely impact of the new rules based on 2011 year end information, which suggests that the effect of the transition to the new regime will not have a material impact on the Group's overall tax position. However the final impact of the transition will depend on the Group life companies' position as at 31 December 2012.

Covered business

The MCEV calculations cover all long-term insurance business written by the Group, but exclude Ignis Asset Management 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 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.

Present value of future profits ('PVFP')

The present value of future profits 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.

MCEV interim financial statements and notes continued

1. Basis of preparation (continued)

Time value of financial options and guarantees ('TVFOGs')

The Group's embedded value includes an explicit allowance for the time value of financial options and guarantees 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 share to cover increases to the cost of guarantees and alterations to investment strategy.

Frictional cost of capital ('COC')

Cost of capital 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 129% (30 June 2011: 117%; 31 December 2011: 128%) of the minimum regulatory capital requirement.

Solvency II will introduce a new capital regime for insurers from the end of 2013. These disclosures do not take account of the impact of the change in regime as this is still under development.

Cost 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 £56 million (30 June 2011: £68 million; 31 December 2011: £46 million).

For other business the cost would be £121 million (30 June 2011: £135 million; 31 December 2011: £130 million). This equates to an equivalent average cost of capital charge of 0.9% (30 June 2011: 1.2%; 31 December 2011: 1.2%). 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 bank 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-profits 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. 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 includes all other annuities written by the life insurance companies.

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 action and policyholder response 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 companies' 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.

MCEV interim financial statements and notes continued

2. Components of the MCEV of covered business

	Half year ended 30 Jun 2012 £m	Half year ended 30 Jun 2011 £m	Year ended 31 Dec 2011 £m
Net worth	**1,369**	1,478	1,175
PVFP	**2,594**	2,935	2,846
TVFOG	**(78)**	(73)	(108)
COC	**(48)**	(136)	(109)
Total VIF	**2,468**	2,726	2,629
	3,837	4,204	3,804

The net worth of covered business of £1,369 million at 30 June 2012 consists of £477million of free surplus in excess of required capital (30 June 2011: £383 million; 31 December 2011: £11 million). This does not include the IFRS net assets of management services of £89 million (30 June 2011: £85 million; 31 December 2011: £82 million) as shown in the free surplus reconciliation for Phoenix Life on page 8.

3. Analysis of covered business MCEV earnings (after tax)

	Half year ended 30 Jun 2012		
	Net worth £m	**VIF £m**	**Total Life MCEV £m**
Life MCEV at 1 January 2012	**1,175**	**2,629**	**3,804**
New business value	**4**	**5**	**9**
Expected existing business contribution (reference rate)[1]	**18**	**34**	**52**
Expected existing business contribution (in excess of reference rate)[2]	**18**	**22**	**40**
Transfer from VIF to net worth	**99**	**(99)**	**–**
Experience variances	**(9)**	**(3)**	**(12)**
Assumption changes	**(2)**	**8**	**6**
Other operating variances	**48**	**12**	**60**
Life MCEV operating earnings	**176**	**(21)**	**155**
Economic variances	**(23)**	**(23)**	**(46)**
Other non-operating variances	**123**	**(102)**	**21**
Total Life MCEV earnings	**276**	**(146)**	**130**
Capital and dividend flows	**(82)**	**(15)**	**(97)**
Life MCEV at 30 June 2012	**1,369**	**2,468**	**3,837**

1 Expected existing business contribution (reference rate) represents the expected return on the opening MCEV at the long-term risk-free rate.

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 Jun 2011		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2011	1,770	2,747	4,517
New business value	3	5	8
Expected existing business contribution (reference rate)	36	56	92
Expected existing business contribution (in excess of reference rate)	16	21	37
Transfer from VIF to net worth	96	(96)	–
Experience variances	9	15	24
Assumption changes	(5)	5	–
Other operating variances	(7)	14	7
Life MCEV operating earnings	148	20	168
Economic variances	6	(10)	(4)
Other non-operating variances	(3)	2	(1)
Total Life MCEV earnings	151	12	163
Capital and dividend flows	(443)	(33)	(476)
Life MCEV at 30 June 2011	1,478	2,726	4,204

	Year ended 31 Dec 2011		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2011	1,770	2,747	4,517
New business value	7	6	13
Expected existing business contribution (reference rate)	65	115	180
Expected existing business contribution (in excess of reference rate)	33	41	74
Transfer from VIF to net worth	212	(212)	–
Experience variances	122	59	181
Assumption changes	(28)	10	(18)
Other operating variances	8	(29)	(21)
Life MCEV operating earnings	419	(10)	409
Economic variances	(272)	(41)	(313)
Other non-operating variances	(4)	(5)	(9)
Total Life MCEV earnings	143	(56)	87
Capital and dividend flows	(738)	(62)	(800)
Life MCEV at 31 December 2011	1,175	2,629	3,804

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 Jun 2012	161	9	6%
Half year ended 30 Jun 2011	148	8	5%
Year ended 31 Dec 2011	274	13	5%

MCEV interim financial statements and notes continued

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
30 Jun 2012	**1,039**	**638**	**407**	**257**	**253**	**2,594**
30 Jun 2011	1,136	778	510	253	258	2,935
31 Dec 2011	1,135	683	455	291	282	2,846

6. Assumptions

Reference rates

(a) Risk-free rates

Risk-free rates are based on the annually compounded UK Government bond nominal spot curve plus 10 basis points, extrapolated as necessary to meet the term of the liabilities. Recognising that this is a departure from MCEV principles, a sensitivity based on swap yields is disclosed.

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

		30 Jun 2012		30 Jun 2011		31 Dec 2011
Term	**Gilt Yield +10 bps**	**Swap Yield**	Gilt Yield +10 bps	Swap Yield	Gilt Yield +10 bps	Swap Yield
1 year	**0.34%**	**0.79%**	0.82%	0.93%	0.32%	1.09%
5 years	**0.95%**	**1.28%**	2.37%	2.57%	1.14%	1.61%
10 years	**1.98%**	**2.15%**	3.77%	3.71%	2.20%	2.32%
15 years	**2.68%**	**2.69%**	4.46%	4.18%	2.85%	2.79%
20 years	**3.13%**	**2.97%**	4.70%	4.32%	3.21%	3.02%

The swaps rates above are only applicable to sensitivity (16) as disclosed in note 7.

(b) Liquidity premiums

In October 2009, the CFO Forum published an amendment to 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 Jun 2012	30 Jun 2011	31 Dec 2011
Additional yield over risk-free rates	**1.03%**	0.50%	0.90%

Inflation

For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index ('RPI') as at 30 June 2012 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 + 100 basis points as at 31 December 2011 (2011: RPI + 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 31 December 2011. The scenario generator and calibration are consistent with that used for realistic balance sheet reporting.

A LIBOR Market Model 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 Jun 2012 Swap term (years)						
5	**25.9%**	**18.8%**	**16.5%**	**15.9%**	**16.3%**	**15.0%**
10	**22.4%**	**17.7%**	**16.0%**	**15.5%**	**15.2%**	**14.5%**
20	**19.4%**	**16.2%**	**14.5%**	**13.6%**	**13.5%**	**13.3%**
30	**18.2%**	**15.1%**	**13.4%**	**12.7%**	**12.6%**	**12.3%**

						Option term (years)
Interest rate volatility	5	10	15	20	25	30
30 Jun 2011 Swap term (years)						
5	17.4%	13.5%	13.7%	13.5%	13.6%	14.2%
10	15.5%	13.3%	13.3%	13.0%	13.4%	13.3%
20	14.3%	12.5%	12.3%	11.8%	11.6%	11.7%
30	13.5%	11.7%	11.3%	10.6%	10.5%	10.3%

						Option term (years)
Interest rate volatility	5	10	15	20	25	30
31 Dec 2011 Swap term (years)						
5	28.1%	19.5%	17.6%	16.1%	16.4%	16.2%
10	24.1%	18.0%	16.2%	15.3%	15.4%	14.9%
20	21.2%	16.1%	14.8%	13.8%	13.5%	13.0%
30	20.0%	15.0%	13.4%	12.3%	12.0%	11.5%

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

Equity volatility is calibrated to replicate the prices on a range of FTSE equity options, and extrapolated beyond terms available in the market. The equity volatility model used allows volatility to vary with both term and the level of the equity index.

						Term (years)
Equity implied volatility (ATM)	5	10	15	20	25	30
30 Jun 2012	**25.8%**	**27.2%**	**27.8%**	**28.0%**	**28.2%**	**28.3%**
30 Jun 2011	22.7%	23.9%	24.2%	24.4%	24.5%	24.6%
31 Dec 2011	25.8%	27.2%	27.5%	27.7%	27.8%	27.9%

Best estimate levels of volatility are assumed for directly held property. The model implied volatility for 30 June 2012 is 15% (31 December 2011: 15%).

The modelling of corporate bonds allows for credit transitions and defaults, calibrated to historic data, with an additional allowance for the credit risk premium, derived from current markets.

MCEV interim financial statements and notes continued

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 our 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 Jun 2012	Half year ended 30 Jun 2011	Year ended 31 Dec 2011
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 management services agreements with the Group's 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 Ignis Asset Management, (or external fund managers, where appropriate), allowing for current and projected future asset mixes.

Valuation of debt and non-controlling interests

The Group's consolidated balance sheet as at 30 June 2012 includes Perpetual Reset Capital Securities with a principal outstanding of £425 million (2011: £425 million) and subordinated debt with a face value of £200 million (2011: £200 million) in relation to Phoenix Life Limited. These listed securities have been included within the MCEV at their market value quoted at the reporting date.

The table below summarises the value of these debt obligations.

	Half year ended 30 Jun 2012		Half year ended 30 Jun 2011		Year ended 31 Dec 2011	
	Face value (including accrued interest) £m	**Market value £m**	Face value (including accrued interest) £m	Market value £m	Face value (including accrued interest) £m	Market value £m
Listed debt and non-controlling interests						
Perpetual Reset Capital Securities	**429**	**247**	430	304	444	256
Subordinated debt	**202**	**144**	204	166	211	139

Unlisted debt has been included at face value.

	Half year ended 30 Jun 2011 Face value £m	Half year ended 30 Jun 2011 Face value £m	Year ended 31 Dec 2011 Face value £m
Unlisted debt			
Pearl and Impala facilities	**2,369**	2,532	2,471
Royal London PIK notes and facility	**114**	109	111

7. Sensitivity to assumptions

The table below summarises the key sensitivities of the MCEV of covered business at 30 June 2012.

	30 Jun 2012 Life MCEV £m	31 Dec 2011 Life MCEV £m
(1) Base	**3,837**	3,804
(2) 1% decrease in risk-free rates	**106**	153
(3) 1% increase in risk-free rates	**(79)**	(157)
(4) 10% decrease in equity market values	**(62)**	(75)
(5) 10% increase in equity market values	**59**	71
(6) 10% decrease in property market values	**(58)**	(72)
(7) 10% increase in property market values	**57**	72
(8) 100 bps increase in credit spreads[1]	**(174)**	(241)
(9) 100 bps decrease in credit spreads[1]	**186**	277
(10) 25% increase in equity/property implied volatilities	**(21)**	(20)
(11) 25% increase in swaption implied volatilities	**(16)**	(11)
(12) 25% decrease in lapse rates and paid-up rates	**(41)**	(43)
(13) 5% decrease in annuitant mortality	**(142)**	(203)
(14) 5% decrease in non-annuitant mortality	**28**	27
(15) Required capital equal to the minimum regulatory capital[2]	**34**	32
(16) Swap curve as reference rate, retaining appropriate liquidity premiums	**(30)**	(50)

1 44 bps 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

73 Shareholder information
74 Forward-looking statements

Shareholder information

Annual General Meeting

Our Annual General Meeting was held on 3 May 2012.

The voting results for our 2012 AGM are available on our website at www.thephoenixgroup.com.

Shareholder Services

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:

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

Shareholder helpline number	0870 707 4040
Fax number	0870 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 2012

Announcement of unaudited six months' interim results	23 August 2012
Announcement of third quarter interim management statement	31 October 2012

2012 Interim Dividend

Ex-dividend date	5 September 2012
Record date	7 September 2012
Interim 2012 dividend payment date	4 October 2012

2012 Annual Results

Our financial results for the year ended 31 December 2012 will be announced on 22 March 2013.

Forward-looking statements

The Interim 2012 Report contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

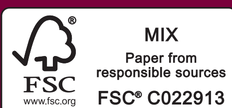
Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking (although their absence does not mean that a statement is not forward-looking). Forward-looking statements involve risk and 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 the effect of the European Union's 'Solvency II' requirements 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, including joint ventures
- 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

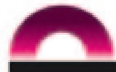
As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within the Interim Report 2012 for the half year ended 30 June 2012.

The Group undertakes no obligation to update any of the forward-looking statements contained within the Interim Report 2012 for the Half Year ended 30 June 2012 or any other forward-looking statements it may make.

The Interim Report 2012 for the half year ended 30 June 2012 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 2012 for the Half Year ended 30 June 2012 is, or should be construed as a profit forecast.



This report is printed on Core Silk which is FSC® (Forest Stewardship Council) certified virgin fibre.
The printer is FSC and ISO 14001 certified. This ensures that there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.
If you have finished reading this report and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled paper waste.
Designed and produced by Radley Yeldar (London) www.ry.com



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