PHOENIX GROUP HOLDINGS:

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2013

22 AUGUST 2013

Phoenix Group, the UK's largest specialist closed life fund consolidator, today announces strong results for the six months ended 30 June 2013 and reiterates all of its financial targets.

Financial highlights

- Interim dividend of 26.7p per share[1] a 27% increase vs. 2012 interim dividend and in line with 2012 final dividend
- £416 million of cash generation[2] in H1 2013 (HY12: £119 million). On track to achieve FY13 cash generation target of £650 million – £750 million
- MCEV of £2.2 billion at 30 June 2013 (FY12 pro forma[3]: £2.3 billion), with £384 million of incremental MCEV enhancement now delivered towards £400 million target from 2011 to 2014
- Gearing[4] reduced from 55% at 31 December 2012 to 48% at 30 June 2013, towards our target of 40% by the end of 2016
- IGD surplus of £1.1 billion and IGD headroom of £0.4 billion at 30 June 2013 (FY12 pro forma[3]: £1.2 billion and £0.4 billion respectively)[5]
- PLHL ICA surplus of £1.0 billion at 30 June 2013 (FY12 pro forma[3]: £0.8 billion)[5]
- Group IFRS operating profit of £186 million in H1 2013 including £24 million from management actions vs. HY12 of £217 million[6], including £59 million from management actions
- Ignis IFRS operating profit of £19 million in H1 2013 (HY12: £19 million)
- £0.9 billion of net third party asset inflows generated by Ignis Asset Management (HY12: £0.9 billion)
- Total Group assets under management of £67.1 billion at 30 June 2013 (FY12: £68.6 billion).

Operational highlights

- Progressed preparation for Part VII transfer of £5 billion of annuity liabilities and related assets to Guardian Assurance Limited, with completion expected towards the middle of H2 2013
- Continued to build a better business for the future;
  - Completed migration of 3.2 million in-force policies administered by Diligenta onto the new administration platform, making policy administration more efficient and giving customers access to their policies online
  - Continued to streamline the Group's actuarial modelling systems, with the new model being run in parallel with existing models for FY13, simplifying modelling processes and allowing consistent capital management across the business
  - Progressed Phoenix Life and Ignis transformation with partner HSBC to consolidate investment back office, accounting and unit pricing, with completion expected in 2014
- Worked closely with our outsource partners to prevent transfers to pensions liberation fraud schemes
- Maintained investment outperformance at Ignis, with 73% of total assets performing above benchmark.

Preliminary discussions with Swiss Re Ltd

Phoenix Group's preliminary discussions with Swiss Re Ltd ('Swiss Re') in relation to a possible combination of Phoenix and Swiss Re's Admin Re Business Unit are ongoing. If successful, this would result in Swiss Re taking a minority shareholding in Phoenix in consideration. There is no certainty that these discussions will lead to any transaction or of the terms on which any such transaction might proceed. Further statements will be made as and when appropriate.

Clive Bannister, Group Chief Executive, commented:

"I am pleased to announce a strong set of results for the six months to 30 June 2013 and to reiterate all of our financial targets, comprising cash generation, de-gearing and incremental value.

The underlying strength of the business model and stable and predictable cash generation has enabled us to declare a 2013 interim dividend of 26.7p per share, which is in line with the 2012 final dividend and represents an increase of 27% compared to the 2012 interim dividend.

The first half of 2013 was transformational for Phoenix Group, with the capital raising and debt re-terming providing greater financial flexibility and putting in place a longer-term capital structure which has strengthened the Group financially and strategically. We are now able to consider opportunities for growing the business."

Notes

1. The interim dividend of 26.7p per share is subject to the terms of the Group's main credit facilities. A scrip dividend option is not available.

Ex-dividend date on LSE	4 September 2013
Record date	6 September 2013
Dividend payment date	3 October 2013

2. Operating companies' cash generation is a measure of cash and cash equivalents, remitted by the Group's operating subsidiaries to the holding companies and is available to cover dividends, bank interest and repayments and other items.
3. Pro forma position at FY12 adjusted for the £250 million capital raising and debt prepayment of £450 million in February 2013.
4. Gearing is calculated as gross shareholder debt as a percentage of gross MCEV.
5. Any references to IGD or PLHL ICA relate to the calculation for Phoenix Life Holdings Limited, ('PLHL'), the ultimate EEA insurance parent undertaking.
6. Restated to reflect revisions to IAS 19 *Employee Benefits*, resulting in a reduction in Group costs of £8 million for the six months ended 30 June 2012.

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Further information

There will be a presentation for analysts and investors today at 9.30am (BST) at:

Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

A link to a live webcast of the presentation, with the facility to raise questions, and a copy of the presentation will be available at www.thephoenixgroup.com. A replay of the presentation will also be available through the website.

Participants may also dial in as follows:

UK	020 3059 8125
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Forward-looking statements

This announcement in relation to Phoenix Group Holdings and its subsidiaries (the 'Group') 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 planned 'ICA+' regime and ultimate transition to the European Union's 'Solvency II' on the Group's capital maintenance requirements; the impact of inflation and deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within this announcement. The Group undertakes no obligation to update any of the forward-looking statements contained within this announcement or any other forward-looking statements it may make. Nothing in this announcement should be construed as a profit forecast.

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Group Chief Executive's report

Introduction

The first half of 2013 was transformational for Phoenix Group. In February, we completed the capital raising and debt re-terming, in which we raised £250 million of new equity, reduced the Group's gearing ratio through the early repayment of £450 million of bank debt, extended the maturity of the Impala bank debt facilities and put in place a more flexible amortisation schedule, which is more closely aligned to the cash generation profile of the Group. The greater financial flexibility and longer-term capital structure achieved through this transaction has strengthened the Group financially and strategically.

The Board has declared an interim dividend for the first six months of 2013 of 26.7p per share which will be paid on 3 October 2013. The dividend is in line with the 2012 final dividend and represents an increase of 27% compared to the 2012 interim dividend.

Performance highlights

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

Against a full year cash generation target of £650 million to £750 million, £416 million was delivered in the first half of the year, primarily reflecting the benefit of free surplus generated in the life companies through management actions during 2012. In particular, the £5 billion annuity transfer to Guardian Assurance Limited ('Guardian') accelerated the release of £252 million of capital in 2012, which was distributed to the holding companies during the first half of 2013.

Group MCEV was £2,247 million as at 30 June 2013, compared to £2,333 million as at the end of December 2012, on a pro forma basis taking into account the capital raising and debt re-terming. The reduction since year end primarily reflects the £72 million increase in the value of our Tier 1 and Tier 2 Notes during the period, which are deducted from our MCEV at market value.

We continue to target £400 million of cumulative incremental embedded value from management actions between 2011 to 2014. The Group generated £332 million of incremental MCEV during 2011 and 2012 towards this target, and a further £52 million of incremental value during the first half of 2013 through a series of actions including the release of legacy provisions and asset/liability matching activity.

Our gearing ratio reduced from 55% as at 31 December 2012 to 48% as at 30 June 2013, towards our 40% target by end of 2016, primarily as a result of the capital raising and debt re-terming.

Our capital position remains robust with IGD surplus and headroom over our capital policy estimated at £1.1 billion and £0.4 billion respectively at 30 June 2013, compared to IGD surplus of £1.2 billion and headroom of £0.4 billion at the end of December 2012, pro forma for the capital raising and debt re-terming. The £0.1 billion reduction in the surplus since year end reflects the payment of shareholder dividends, the coupon on our Tier 1 Notes and bank debt repayments during the period. The legal transfer of the annuity liabilities and assets to Guardian is well progressed and is expected to enhance IGD headroom by £0.2 billion.

At 30 June 2013, our PLHL ICA surplus was estimated to be £1.0 billion, with headroom over our £150 million capital policy of £0.8 billion. This compares with the PLHL ICA surplus of £0.8 billion and headroom of £0.7 billion at 31 December 2012, pro forma for the capital raising and debt re-terming.

Group assets under management were £67.1 billion as at 30 June 2013, compared to £68.6 billion as at 31 December 2012, reflecting the natural run-off of the life company assets, partly offset by net inflows of £0.9 billion from third parties and a net £0.2 billion repatriation of Guardian assets relating to the annuity transfer.

Finally, the Group achieved IFRS operating profits of £186 million in the first half of 2013 including £24 million from management actions and £19 million from positive experience and assumption changes, compared to £217 million in the first half of 2012 (restated for revisions to IAS 19 *Employee Benefits*), which benefited from £59 million of management actions.

Phoenix Life review

Phoenix Life contributed IFRS operating profit of £178 million in the first half of 2013, compared to £205 million for the same period in 2012. Management actions included within operating profit totalled £24 million in the first half of 2013, whereas the previous year's management actions totalled £59 million.

Preparations for the Part VII transfer of £5 billion of annuity liabilities and related assets to Guardian are progressing well, with completion expected towards the middle of the second half of 2013. In addition to this important management action, Phoenix Life has made strong progress across several other areas in the first half of 2013.

In conjunction with our outsource partner, Diligenta, we completed the migration of in-force policies to the BaNCS administration platform, with the transfer of a further 180,000 policies, making policy administration more efficient and giving customers access to their policies online. This brings the total number of in-force policies migrated to BaNCS to 3.2 million.

Phoenix Life continues to make progress, together with Ignis Asset Management, in consolidating the investment back office, accounting and unit pricing with a single outsource provider, HSBC, streamlining the operations and increasing efficiency.

The Group has continued with its preparations for the implementation of Solvency II. During 2013, activities have been focused primarily on preparations for moving towards an 'ICA+' regime, as well as monitoring the progress of the development of the Solvency II regulations.

The Group's Actuarial Systems Transformation project ('AST'), which has developed a single actuarial modelling platform designed to transform the Group's modelling capability and efficiency, has progressed and the new model will be run in parallel with existing models for the 2013 year end.

Customers are at the heart of what we do, and ensuring their money is protected against fraud is one of our key focuses. This year, we have stopped 495 cases of pension liberation fraud. Through our intelligence model, and by building new processes with our outsource partners, we identified and withheld £10 million of transfers which cold callers had convinced policyholders to make by promising to release cash early from their pensions. Had these cases proceeded, policyholders in all probability would have been left with substantial tax charges, excessive administration fees, and potentially no pension at all when they reached retirement. As well as communicating directly with customers, we also undertook a major programme to raise awareness of the issue.

Ignis Asset Management review

Ignis Asset Management continued to grow its third party franchise in the first half of 2013, despite volatile global economic conditions, winning £0.9 billion of net third party inflows (HY12: £0.9 billion). An acceleration of sales in the Absolute Return Government Bond Fund ('ARGBF') including higher international inflows offset a slight fall in liquidity net inflows.

In addition, net £0.2 billion of assets associated with the Group's annuity transaction with Guardian also returned to Ignis during the first half of the year, with the remaining £1.1 billion of Guardian assets expected to transition back to Ignis during the second half of 2013.

Ignis' IFRS operating profits were flat compared to the first half of 2012 at £19 million, the impact of lower revenues caused by the run-off of life company assets and restructuring of the former joint ventures being offset by increased third party revenues and reduced expenses.

Ignis' assets under management totalled £64.9 billion at 30 June 2013 compared to £66.0 billion at 31 December 2012, reflecting the run-off of life company assets offset by third party asset inflows. Sales strength has been supported by continued investment outperformance, with 73% of total assets performing above benchmark.This has been led by strong performance in Ignis' key funds, with ARGBF delivering a 5.50% return over the last year (against a SONIA (Sterling Overnight Interbank Average benchmark) return of 0.43%) and the Ignis UK Property Fund's long-term returns reflecting top performance over the five year period compared to a peer group of comparable funds.

Ignis has also been working to broaden its product offerings. The Ignis absolute return suite of products is expected to be complemented by a hedge fund version this year, targeted primarily at more sophisticated institutional investors. Emerging Market Debt and Tactical Asset Allocation funds were launched internally, with the former expected to be launched to third parties in due course.

Ignis has recorded notable progress on its operational priorities. The joint ventures transition has been completed, with all of the businesses now continuing on a standalone basis. The transformation partnership with HSBC is ongoing, with completion of the back office outsourcing programme expected in 2014.

The results of the first six months of 2013, against the backdrop of volatile market conditions, indicate continued momentum in the business' development into a leading asset manager.

Outlook

The first half of 2013 has been pivotal in terms of putting in place a capital structure for the long-term and increasing the financial and strategic flexibility of the Group. We are now in a position where we can consider potential opportunities to grow the business through acquisitions, strengthening our existing position as the UK's largest specialist consolidator of closed life funds.

Our preliminary discussions with Swiss Re Ltd ('Swiss Re') in relation to a possible combination of Phoenix and Swiss Re's Admin Re business unit are ongoing. If successful, this would result in Swiss Re taking a minority shareholding in Phoenix in consideration. There is no certainty that these discussions will lead to any transaction or of the terms on which any such transaction might proceed. We will update the market in this regard as and when appropriate.

Irrespective of these discussions, our focus remains on the continued delivery of strong performance across all of our key financial metrics and targets.

I would like to thank my colleagues for their hard work during this transformational period for the Group. We remain committed to delivering value to all our stakeholders.

Clive Bannister
Group Chief Executive

21 August 2013

Business review

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Key Performance Indicators

Operating companies' cash generation

£416m

(HY12: £119 million)

With cash generation of £416 million in the period the Group is on track to meet its full year cash generation target for 2013 of £650 million to £750 million. Management actions have generated cash flows of £252 million in the period.

The cumulative cash flow target for 2011 to 2016 is £3.5 billion, against which £1.9 billion had been achieved by 30 June 2013.

The Phoenix Life free surplus decreased to £406 million at 30 June 2013 (YE12: £514 million) reflecting cash distributions to the holding companies of £411 million partly offset by capital generation in the period of £303 million.

Group MCEV

£2,247m

(31 December 2012: £2,122 million)

Group MCEV increased by £125 million to £2,247 million at 30 June 2013, benefiting from the equity raise of £232 million (net of associated fees and commission) and management actions of £52 million principally through the release of legacy provisions and asset/liability matching activity.

The Group's target is an average of £100 million per annum of incremental embedded value growth from management actions between 2011 and 2014 of which £384 million has now already been delivered.

Group IFRS operating profit

£186m

(HY12: £217 million restated)

Group IFRS operating profit decreased by £31 million to £186 million principally reflecting the greater benefit derived from management actions in the prior period relative to the current period.

Ignis Asset Management IFRS operating profit

£19m

(HY12: £19 million)

Ignis' IFRS operating profit of £19 million was in line with the comparative period reflecting lower income from the life companies, offset by increased third party revenues and expense savings.

Group assets under management

£67.1bn

(31 December 2012: £68.6 billion)

Group assets under management decreased by £1.5 billion in the period as net third party sales of £0.9 billion only partly offset the run-off of the closed life funds.

Of the Group assets under management, Ignis manages or administers £45.2 billion of internal funds (31 December 2012: £47.1 billion), and £13.0 billion of external funds (31 December 2012: £11.9 billion) and provides oversight and advisory services on £6.7 billion of internal funds (31 December 2012: £7.0 billion).

IGD surplus (estimated)

£1.1bn

(31 December 2012: £1.4 billion)

The estimated IGD surplus has decreased by £0.3 billion to £1.1 billion. The key drivers of the reduction in the IGD surplus were dividend payments and debt financing and repayments; including a £0.2 billion reduction in relation to the re-terming of the Impala facility net of proceeds from the equity raise. Headroom over the Group's capital policy has also reduced as a result of these factors to £0.4 billion (31 December 2012: £0.6 billion).

PLHL ICA surplus (estimated)

£1.0bn

(31 December 2012: £1.0 billion)

The estimated PLHL ICA surplus remained resilient at £1.0 billion despite the £0.2 billion reduction reflecting the impact of the Impala loan facility prepayment net of the equity raise proceeds.

The Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million.

Gearing ratio

48%

(31 December 2012: 55%)

Gearing reduced to 48% at 30 June 2013 reflecting the equity raise of £232 million (net of associated fees and commission) and debt repayments of £535 million made in the period.

The ratio is targeted to reduce to 40% by the end of 2016.

Interim dividend per share

26.7p per share

(HY12: 21p per share)

Interim dividend per share of 26.7p*.

The dividend is in line with the 2012 final dividend and represents an increase of 27% compared to the 2012 interim dividend.

* Subject to compliance with the terms of the Group's main credit facilities.

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 2013 £m	Half year ended 30 June 2012 £m
Cash and cash equivalents at start of period	**1,066**	837
Cash receipts from operating companies[1]	**416**	119
Net proceeds of the equity raise[2]	**211**	–
Cash receipts	**627**	119
Uses of cash:		
Operating expenses	**(21)**	(22)
Pension scheme contributions	**(16)**	(10)
Debt interest	**(88)**	(70)
Total recurring cash outflows	**(125)**	(102)
Non-recurring cash outflows	**(7)**	(5)
Uses of cash before debt repayments and shareholder dividend	**(132)**	(107)
Debt repayments	**(535)**	(103)
Shareholder dividend	**(60)**	(36)
Cash and cash equivalents at end of period[3]	**966**	710

1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £15 million (HY12: £25 million).

2 Proceeds of the equity raise of £232 million net of associated fees and commission, and after the deduction of £21 million of fees associated with the re-terming of the Impala loan facility.

3 Closing balance at 30 June 2013 includes required prudential cash buffer of £150 million (30 June 2012: £150 million).

Cash receipts

Cash remitted by the operating companies was £416 million (HY12: £119 million) driven largely by the opening free surplus within the life companies. £252 million of these cash flows arose from free surplus generated by the life companies in 2012 following the Guardian Assurance Limited annuity transfer transaction.

In January 2013 the Group announced the re-terming of the Impala facility and an equity raising of £250 million. The equity raising comprised equity placings with certain Och-Ziff funds and an open offer to raise aggregate gross proceeds of £250 million through the issuance on 21 February 2013 of 50 million ordinary shares. The proceeds of the equity raising net of associated fees and commission of £18 million, and after the deduction of £21 million of fees associated with the re-terming of the Impala loan facility were £211 million.

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:

Phoenix Life free surplus movement	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Opening free surplus[4]	**514**	93
Cash distributed to holding companies	**(411)**	(95)
IFRS operating profit (net of tax)	**160**	184
IFRS economic variances and non-recurring items	**(56)**	(116)
Movements in capital requirements and policy	**150**	448
Valuation differences and other[5]	**49**	52
Closing free surplus	**406**	566

4 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.

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

Movements in capital requirements and policy in the period of £150 million (HY12: £448 million) reflects the inherent release of capital requirements from the run-off of the life funds, together with the positive impact of increasing yields on capital requirements and policy. The prior year comparative included the net capital benefits of the annuity transfer transaction of £252 million.

Uses of cash

Recurring cash outflows

Operating expenses were broadly in line with the 2012 half year results. Pension scheme contributions increased as the Group holding companies are currently bearing the entire cash cost of funding the Group's two pension schemes. In prior periods, Phoenix Life funded a portion of the contributions made to the PGL Pension Scheme.

Debt interest increased to £88 million (HY12: £70 million) mainly reflecting increased costs associated with the Group's interest rate swap arrangements.

Non-recurring cash outflows

Non-recurring cash outflows of £7 million (HY12: £5 million) reflect investment in the Group's transformation programmes.

Debt repayments and shareholder dividend

A £450 million voluntary debt prepayment, a targeted repayment of £30 million and a scheduled repayment of £30 million in respect of the Group's Impala loan facility, together with a scheduled repayment of £25 million[1] in respect of Pearl loan facility were made in the first half of 2013.

Shareholder dividends paid in the first half of 2013 were £60 million.

1 This includes £2 million paid to Phoenix Life Assurance Limited, a subsidiary undertaking. Phoenix Life Assurance Limited is a lender under the Pearl facility.

Group MCEV

Group MCEV earnings[1]

The Group generated MCEV operating earnings after tax of £145 million for the period, a decrease of £21 million on the comparative period.

Group MCEV earnings	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 Restated £m
Life MCEV operating earnings[2]	**165**	205
Management services operating profit	**18**	10
Ignis Asset Management operating profit	**19**	19
Group costs	**(13)**	(14)
Group MCEV operating earnings before tax	**189**	220
Tax charge on operating earnings	**(44)**	(54)
Group MCEV operating earnings after tax	**145**	166
Economic variances on life business	**(30)**	(61)
Economic variances on non-life business	**(43)**	19
Other non-operating variances on life business	**(3)**	27
Non-recurring items on non-life business	**(38)**	(18)
Finance costs attributable to owners	**(84)**	(75)
Tax on non-operating earnings	**9**	6
Group MCEV (loss)/earnings after tax	**(44)**	64

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 their IFRS net assets. The Group MCEV does not include the future earnings from their businesses.

2 Life MCEV operating earnings are derived on an after tax basis. For presentational purposes, Life MCEV operating earnings before tax have been calculated by grossing up the after tax Life MCEV operating earnings. Life MCEV operating earnings before tax of £165 million (HY12: £205 million) are therefore calculated as £127 million operating earnings (HY12: £155 million) grossed up for tax at 23.25% (HY12: 24.5%).

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 2013 £m	Half year ended 30 June 2012 £m
New business value	**10**	9
Expected existing business contribution	**62**	92
Non-economic experience variances and assumption changes:		
Experience variances	**26**	(12)
Assumption changes	**20**	6
Other operating variances	**9**	60
Total non-economic experience variances and assumption changes	**55**	54
Life MCEV operating earnings after tax	**127**	155

New business value generated from vesting annuities during the period was £10 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 (HY12: 6%).

The Group uses long-term investment returns in calculating the expected existing business contribution. The expected contribution of £62 million after tax is £30 million lower than in 2012, primarily due to a decrease in the long-term risk-free rate, narrowing corporate bond spreads and the impact of equity hedging strategies.

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 and assumption changes increased MCEV by £55 million after tax in the period (HY12: £54 million) and primarily relate to one-off management actions of £52 million, principally relating to the release of legacy provisions and asset/liability matching activity.

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 of £13 million (HY12 restated: £14 million) include costs relating to Group functions and project spend of £9 million before tax (HY12 restated: £14 million). The balance of the charge in the current period relates to charges on the Pearl Group Staff Pension Scheme.

Economic variances

Negative economic variances on life business of £30 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 and the impact of increasing yields, partly offset by positive equity returns and gains from narrowing corporate bond spreads.

Negative economic variances on non-life business of £43 million before tax largely relate to an increase in the market value of the Tier 1 Notes which decreased MCEV earnings by £58 million (HY12: £9 million) partly offset by fair value gains on interest rate swaps held by the holding companies.

Other non-operating variances on life business

Other non-operating variances on life business of negative £3 million before tax primarily relates to a revision to the net benefit expected to arise upon completion of the annuity transfer transaction partly offset by 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 £38 million before tax. Non-recurring items include arrangement and structuring fees of £21 million (HY12: £nil) associated with the re-terming of the Impala loan facility, regulatory change and systems transformation costs of £4 million (HY12: £7 million) and restructuring costs and other one-off items of £13 million (HY12: £11 million).

Finance costs attributable to owners

Finance costs attributable to owners comprise:

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Debt finance costs[1]	**58**	49
Other (including Tier 1 coupon)	**26**	26
	84	75

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

Debt finance costs have increased by £9 million mainly reflecting increased costs associated with the Group's interest rate swap arrangements.

Group MCEV

The Group MCEV increased by £125 million over the period to £2,247 million at 30 June 2013 as shown below:

Movement in Group MCEV	**Half year ended 30 June 2013 £m**	Half year ended 30 June 2012 £m
Group MCEV at 1 January	**2,122**	2,118
Group MCEV (loss)/earnings after tax	**(46)**	53
Capital and dividend flows	**171**	(36)
Group MCEV at 30 June	**2,247**	2,135

An actuarial loss and pension scheme contributions of £2 million (net of tax) (HY12 restated: £11 million) was recognised under other comprehensive income in respect of the Pearl Group Staff Pension scheme during the period. Capital and dividend flows in the period primarily comprise ordinary share capital issued of £233 million (net of associated fees and commissions) less external dividend payments of £60 million.

Group IFRS operating profit

The Group has generated an IFRS operating profit of £186 million for the period (HY12 restated: £217 million).

Group IFRS operating profit	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 Restated £m
IFRS operating profit		
Phoenix Life	**178**	205
Ignis Asset Management	**19**	19
Group costs	**(11)**	(7)
Operating profit before adjusting items	**186**	217
Investment return variances and economic assumption changes on long-term business	**(13)**	(82)
Variance on owners' funds	**(20)**	(2)
Amortisation of acquired in-force business and other intangibles	**(60)**	(67)
Non-recurring items	**(40)**	(29)
Profit before finance costs attributable to owners	**53**	37
Finance costs attributable to owners	**(65)**	(56)
Loss before the tax attributable to owners	**(12)**	(19)
Tax credit attributable to owners	**4**	36
(Loss)/profit for the period attributable to owners	**(8)**	17

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 5 to the IFRS condensed consolidated interim financial statements.

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

Phoenix Life operating profit	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
With-profit	**36**	32
With-profit where internal capital support provided	**12**	3
Non-profit and unit-linked	**105**	145
Longer-term return on owners' funds	**7**	15
Management services	**18**	10
Phoenix Life operating profit before tax	**178**	205

The with-profit operating profit of £36 million represents the shareholders' one-ninth share of the policyholder bonuses and increased by £4 million on the comparative period (HY12: £32 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 increased by £9 million on the comparative period primarily due to positive longevity assumption changes of £6 million and the benefit of modelling improvements of £3 million recognised in the first half of 2013.

The operating profit for non-profit and unit-linked funds was £105 million (HY12: £145 million). The reduction compared to the prior period reflects lower one-off positive impacts from management actions of £24 million (HY12: £59 million).

The longer-term return on owners' funds of £7 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 £18 million has improved compared to the prior period (HY12: £10 million) reflecting lower outsource partner costs and other cost management activities.

Ignis Asset Management

The operating profit of the asset management business of £19 million was in line with the comparative period (HY12: £19 million). Whilst operating profit was impacted by lower life company fees caused by run-off and restructuring of the former joint ventures, this was offset by growth in third party revenues and expense reductions.

Ignis Asset Management operating profit	**Half year ended 30 June 2013 £m**	Half year ended 30 June 2012 £m
Life fund revenue[1]	**43**	48
Third party (including Group pension schemes)[2]	**18**	15
Other	**1**	3
Total revenues	**62**	66
Staff costs	**(29)**	(31)
Other operating expenses	**(14)**	(16)
Total expenses	**(43)**	(47)
Ignis Asset Management operating profit before tax	**19**	19

1 Includes performance fees of £4 million (HY12: £5 million).

2 Includes performance fees of £nil million (HY12: £1 million).

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

Group costs

Group costs of £11 million (HY12 restated: £7 million) include costs relating to Group functions and project spend of £10 million (HY12: £15 million). The balance of the movement in both periods relates primarily to the pension schemes.

The Group has adopted the revisions to IAS 19 *Employee Benefits* for the first time in 2013 (see note 2 to the IFRS condensed consolidated interim financial statements) and has consequently changed its basis for determining income or expense relating to the defined benefit pension schemes. This change in accounting policy has been applied retrospectively, resulting in a £10 million reduction in Group costs for the six months ended 30 June 2012.

Adjusting items

Overall, the life companies had negative investment return variances and economic assumption changes of £13 million in the period, primarily driven by losses on equity hedging positions held by certain life funds on an economic basis, partly offset by the positive impact of increasing yields.

The negative variance on owners' funds of £20 million primarily relates to fair value losses on swap and equity hedging positions held within the shareholder funds.

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 £51 million (HY12: £58 million). Amortisation of other intangible assets totalled £9 million in the period (HY12: £9 million).

Non-recurring items include arrangement and structuring fees of £21 million associated with the re-terming of the Impala loan facility, regulatory change and systems transformation costs of £10 million (HY12: £21 million); and restructuring and other one-off items of £9 million (HY12: £8 million).

Finance costs attributable to owners

Finance costs attributable to owners comprise:

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Debt finance costs[1]	**58**	49
Other finance costs	**7**	7
Finance costs attributable to owners	**65**	56

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

Debt finance costs have increased by £9 million mainly reflecting increased costs associated with the Group's interest rate swap arrangements.

Tax credit attributable to owners

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

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

The Group tax credit for the period attributable to owners is £4 million based on a loss (after policyholder tax) of £12 million. Whilst this is broadly in line with the expected credit (based on the UK corporation tax rate of 23.25%) of £3 million, there are a number of offsetting differences which impact the actual position (see note 6 to the IFRS condensed consolidated interim financial statements).

The new rules under the UK Finance Act 2012 for the taxation of insurance companies became effective from 1 January 2013. The positive £12 million impact on the Group's net assets arising from the introduction of the new rules was recognised in the statement of financial position as at 31 December 2012 and accordingly the impact on the current period tax credit is neutral.

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[1] £bn	Total including stock lending collateral £bn
As at 1 January 2013	**56.7**	**11.9**	**68.6**	**9.3**	**77.9**
Inflows	**–**	**1.8**	**1.8**	**–**	**1.8**
Outflows	**(2.7)**	**(0.7)**	**(3.4)**	**(0.6)**	**(4.0)**
Market movements	**0.1**	**–**	**0.1**	**–**	**0.1**
As at 30 June 2013	**54.1**	**13.0**	**67.1**	**8.7**	**75.8**

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

Life and holding companies' assets decreased by £2.6 billion to £54.1 billion in the first half of the year reflecting the run-off of the closed life business, a reduction in collateral held in respect of derivative positions and the net holding company cash outflow.

Net inflows from third parties were £0.9 billion (HY12: £0.9 billion) plus a further £0.2 billion from Guardian Assurance Limited (HY12: £nil) in the period with positive inflows across all sales channels.

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

Ignis assets under management	Life and holding companies £bn	Third party £bn	Total Group assets under management £bn	Stock lending collateral £bn	Total including stock lending collateral £bn
Direct asset management	**45.2**	**13.0**	**58.2**	**8.7**	**66.9**
Oversight and advice	**6.7**	**–**	**6.7**	**–**	**6.7**
As at 30 June 2013	**51.9**	**13.0**	**64.9**	**8.7**	**73.6**

Ignis assets under management	Life and holding companies £bn	Third party £bn	Total Group assets under management £bn	Stock lending collateral £bn	Total including stock lending collateral £bn
Direct asset management	47.1	11.9	59.0	9.3	68.3
Oversight and advice	7.0	–	7.0	–	7.0
As at 31 December 2012	54.1	11.9	66.0	9.3	75.3

Capital management

The Group has continued to focus on capital and gearing during the period. Our capital position remains robust, the IGD headroom over capital policy is £0.4 billion and the PLHL ICA surplus is £1.0 billion at 30 June 2013. The gearing ratio as at 30 June 2013 is 48%.

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 PRA. These measures are aggregated under the European Union Insurance Groups' Directive ('IGD') to calculate regulatory capital adequacy at a group level.

The Group's IGD assessment is made at the level of the highest EEA 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 2013 is £1.1 billion. The components of the estimated IGD calculation are shown below:

	30 June 2013 £bn	31 December 2012 £bn
Group capital resources ('GCR')	**5.4**	5.6
Group capital resource requirement ('GCRR')	**(4.3)**	(4.2)
IGD surplus (estimated)	**1.1**	1.4

The key drivers of the reduction in the IGD surplus were dividend payments and debt financing and repayments; including a £0.2 billion reduction in relation to the re-terming of the Impala facility net of proceeds from the equity raise.

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

- 105% of the with-profit insurance component ('WPICC'), being an additional capital requirement 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 2012: £0.6 billion).

PLHL ICA surplus (estimated)

The Group undertakes an Individual Capital Assessment ('ICA') at the level of the highest EEA insurance group holding company, which is PLHL. This involves an assessment, on a Pillar 2 basis, of the capital resources 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.

The Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million. PLHL's ICA position at 30 June 2013 is set out below:

	30 June 2013 £bn	31 December 2012 £bn
Capital resources[1]	**1.2**	1.3
Capital resource requirements[2]	**(0.2)**	(0.3)
PLHL ICA surplus (estimated)	**1.0**	1.0

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 2013 £bn	PLHL ICA surplus 30 June 2013 £bn
Estimated 30 June 2013 position	**1.1**	**1.0**
Estimated position following a 20% fall in equity markets	**1.1**	**0.9**
Estimated position following a 15% fall in property values	**1.1**	**0.9**
Estimated position following a 75 bps parallel increase in yields[1]	**1.1**	**1.1**
Estimated position following a 75 bps parallel decrease in yields[2]	**1.1**	**0.9**
Estimated position following credit spread widening[3]	**1.2**	**0.8**

1 75 bps parallel increase in gilt yields and a 100 bps increase in inflation.

2 75 bps parallel decrease in gilt yields and a 50 bps decrease in inflation.

3 10 year term: AAA 45 bps, AA 101 bps, A 116 bps, BBB 210 bps.

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

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 gross shareholder debt of £2,211 million (31 December 2012: £2,741 million) as shown below. The gearing ratio[4] is 48% (31 December 2012: 55%).

Shareholder debt (including hybrid debt)	30 June 2013 £m	31 December 2012 £m
Bank debt		
Pearl facility	**328**	351
Pearl loan notes	**76**	75
Impala facility	**1,342**	1,852
Royal London PIK notes and facility	**119**	116
PLL subordinated debt	**147**	143
Tier 1 Notes at 50% of IFRS carrying value (see note 11 to the IFRS financial statements)	**199**	204
Shareholder debt (including hybrid debt)	**2,211**	2,741

Shareholder debt has fallen by £530 million in the period mainly reflecting the re-terming of the Impala facility which included a £450 million prepayment on 22 February 2013. A further £30 million targeted repayment and a £30 million scheduled repayment were also made during the period in respect of the Impala facility.

Further detail in respect of shareholder debt is included in note 14 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 to 40% by the end of 2016.

4 Gross shareholder debt as a percentage of the sum of the Group MCEV and the value of the shareholder and hybrid debt as included in the MCEV.

Risk management

The Group operates a Risk Management Framework ('RMF') which seeks to establish a coherent and proactive set of arrangements and processes to support the effective management of risk throughout the Group. The Board seeks to ensure that the Group identifies and manages all risks, 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. These remain as described on page 46 in the 2012 Annual Report and Accounts.

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 evolving regulatory requirements and external best practice. This has included, for example, independent reviews by the Group Risk function of specific risk types and individual components of the RMF.

Principal risks and uncertainties facing the Group

Risk	Impact	Mitigation
In times of severe 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 severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's embedded value, 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 potential limitation on distributions from the Group's PRA/FCA 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 the ICA+ regime and eventually 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 its operations and lobbies where appropriate.
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 its 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.
The Group could be adversely affected if it is unable to repay or refinance its debt when it falls due.	The Group may not be able to refinance the outstanding amount on its debt facilities as they mature on terms which are as favourable as the existing terms or it may be unable to refinance those obligations at all.	The equity raising and debt re-terming announced in January 2013 removed the re-financing risk associated with the Impala facility bullet repayments that were previously due in 2014, 2015 and 2016. The Group is targeting a gearing ratio of 40% by the end of 2016. At this lower level of gearing, a wider range of funding opportunities such as the debt capital markets should become available to the Group.

IFRS condensed consolidated interim financial statements

In this section

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Statement of Directors' responsibilities

Board Responsibility Statement pursuant to section 5:25d(2)(c) of the Dutch Financial Markets Supervision Act[1].

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

- the condensed consolidated interim financial statements for the half year ended 30 June 2013, 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;
- the Interim Report includes a fair review of the state of affairs of Phoenix Group Holdings and its consolidated subsidiaries as at 30 June 2013 and for the financial half year to which the Interim Report relates. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings and its consolidated subsidiaries for the remaining six months of the year; and
- the Interim Report includes a fair review of the information required on material transactions with related parties.

Clive Bannister
Group Chief Executive

James McConville
Group Finance Director

St Helier, Jersey
21 August 2013

[1] The Company's home member state is the Netherlands as a result of its original listing on Euronext Amsterdam and is therefore governed by the Dutch Financial Markets Supervision Act.

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 2013, of Phoenix Group Holdings, Cayman Islands, as set out on the pages 22 to 29, which comprises the condensed consolidated income statement, the condensed statement of consolidated comprehensive income, the pro forma reconciliation of Group operating profit to result attributable to owners, the condensed statement of consolidated financial position, the condensed statement of consolidated cash flows, the condensed statement of consolidated changes in equity and the related notes on pages 30 to 55. 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 2013 is not prepared, in all material respects, in accordance with IAS 34, as adopted by the European Union.

Amsterdam, 21 August 2013

Ernst & Young Accountants LLP
was signed by
J.G.Kolsters

Condensed consolidated interim financial statements and notes
Condensed consolidated income statement
For the half year ended 30 June 2013

	Notes	Half year ended 30 Jun 2013 £m	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
Gross premiums written		**672**	808	1,609
Less: premiums ceded to reinsurers		**(37)**	(37)	(5,173)
Net premiums written		**635**	771	(3,564)
Fees		**86**	74	157
Net investment income		**898**	1,895	4,600
Total revenue, net of reinsurance payable		**1,619**	2,740	1,193
Other operating income		**4**	4	13
Net income		**1,623**	2,744	1,206
Policyholder claims		**(2,443)**	(2,475)	(5,166)
Less: reinsurance recoveries		**274**	110	364
Change in insurance contract liabilities		**2,526**	343	645
Change in reinsurers' share of insurance contract liabilities		**(832)**	56	5,142
Transfer to unallocated surplus		**(38)**	–	(45)
Net policyholder claims and benefits incurred		**(513)**	(1,966)	940
Change in investment contract liabilities		**(573)**	(254)	(750)
Acquisition costs		**(5)**	(2)	(3)
Change in present value of future profits		**6**	–	–
Amortisation of acquired in-force business		**(58)**	(64)	(122)
Amortisation of customer relationships		**(9)**	(9)	(18)
Administrative expenses		**(254)**	(292)	(585)
Net expense attributable to unitholders		**(129)**	(42)	(111)
Total operating expenses		**(1,535)**	(2,629)	(649)
Profit before finance costs and tax		**88**	115	557
Finance costs		**(129)**	(118)	(215)
(Loss)/profit for the period before tax		**(41)**	(3)	342
Tax attributable to policyholders' returns		**29**	(16)	(33)
(Loss)/profit before the tax attributable to owners		**(12)**	(19)	309
Tax credit	6.1	**33**	20	82
(Less)/add: tax attributable to policyholders' returns		**(29)**	16	33
Tax credit attributable to owners		**4**	36	115
(Loss)/profit for the period attributable to owners		**(8)**	17	424
Attributable to				
Owners of the parent		**(27)**	10	407
Non-controlling interests		**19**	7	17
		(8)	17	424
(Loss)/earnings per share				
Basic (pence per share)	7	**(13.1p)**	5.7p	235.0p
Diluted (pence per share)	7	**(13.1p)**	5.7p	234.9p

Condensed statement of consolidated comprehensive income
For the half year ended 30 June 2013

	Notes	**Half year ended 30 Jun 2013 £m**	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
(Loss)/profit for the period		**(8)**	17	424
Other comprehensive income/(expense):				
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:				
Foreign exchange rate movements		**13**	–	(8)
Items not to be reclassified to profit or loss in subsequent periods:				
Remeasurements of net defined benefit asset/liability		**(9)**	(78)	(441)
Tax credit on defined benefit pension schemes	6.2	**–**	5	114
		(9)	(73)	(327)
Total comprehensive (expense)/income for the period		**(4)**	(56)	89
Attributable to:				
Owners of the parent		**(23)**	(63)	72
Non-controlling interests	11	**19**	7	17
		(4)	(56)	89

Pro forma reconciliation of Group operating profit to result attributable to owners
For the half year ended 30 June 2013

	Notes	**Half year ended 30 Jun 2013 £m**	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
Operating profit				
Phoenix Life		**178**	205	399
Ignis Asset Management		**19**	19	43
		197	224	442
Group costs		**(11)**	(7)	(13)
Total operating profit before adjusting items		**186**	217	429
Investment return variances and economic assumption changes on long-term business	5	**(13)**	(82)	1
Variance on owners' funds	5	**(20)**	(2)	(13)
Amortisation of acquired in-force business		**(51)**	(58)	(109)
Amortisation of customer relationships		**(9)**	(9)	(18)
Non-recurring items		**(40)**	(29)	130
Profit before finance costs attributable to owners		**53**	37	420
Finance costs attributable to owners		**(65)**	(56)	(111)
(Loss)/profit before the tax attributable to owners		**(12)**	(19)	309
Tax credit attributable to owners	6.1	**4**	36	115
(Loss)/profit for the period attributable to owners		**(8)**	17	424

Condensed statement of consolidated financial position
As at 30 June 2013

	Notes	**30 Jun 2013 £m**	30 Jun 2012 £m	31 Dec 2012 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	8	**–**	–	–
Share premium		**1,156**	1,018	982
Other reserves	9	**–**	5	5
Shares held by employee trust and Group entities		**(14)**	(11)	(10)
Foreign currency translation reserve		**98**	93	85
Retained earnings		**566**	448	596
Total equity attributable to owners of the parent		**1,806**	1,553	1,658
Non-controlling interests	11	**711**	726	724
Total equity		**2,517**	2,279	2,382
Liabilities				
Pension scheme liability	12	**192**	–	197
Insurance contract liabilities				
Liabilities under insurance contracts	13	**43,587**	51,439	45,730
Unallocated surplus		**931**	848	893
		44,518	52,287	46,623
Financial liabilities				
Investment contracts		**8,327**	7,933	8,096
Borrowings	14	**2,527**	3,110	3,046
Deposits received from reinsurers		**412**	467	454
Derivatives		**2,778**	3,958	3,026
Net asset value attributable to unitholders		**5,269**	4,334	4,671
Obligations for repayment of collateral received		**9,344**	12,402	10,458
	15.1	**28,657**	32,204	29,751
Provisions		**58**	57	67
Deferred tax		**364**	613	409
Reinsurance payables		**12**	30	47
Payables related to direct insurance contracts		**414**	484	393
Current tax		**73**	61	71
Accruals and deferred income		**128**	176	166
Other payables		**2,458**	1,524	509
Liabilities classified as held for sale	3	**5,121**	–	5,479
Total liabilities		**81,995**	87,436	83,712
Total equity and liabilities		**84,512**	89,715	86,094

Condensed statement of consolidated financial position
As at 30 June 2013

	Notes	30 Jun 2013 £m	30 Jun 2012 £m	31 Dec 2012 £m
ASSETS				
Pension scheme asset	12	**139**	257	137
Intangible assets				
Goodwill		**96**	115	96
Acquired in-force business		**1,564**	1,818	1,622
Customer relationships and other intangibles		**376**	393	384
Present value of future profits		**29**	23	23
		2,065	2,349	2,125
Property, plant and equipment		**23**	24	24
Investment property		**1,657**	1,826	1,727
Financial assets				
Loans and receivables		**2,271**	2,723	1,914
Derivatives		**2,670**	5,098	3,665
Equities		**11,203**	10,640	11,005
Fixed and variable rate income securities		**38,228**	43,469	40,892
Collective investment schemes		**6,405**	5,931	6,044
	15.1	**60,777**	67,861	63,520
Insurance assets				
Reinsurers' share of insurance contract liabilities		**2,724**	3,204	3,204
Reinsurance receivables		**28**	64	64
Insurance contract receivables		**9**	14	10
		2,761	3,282	3,278
Current tax		**7**	6	6
Prepayments and accrued income		**487**	520	500
Other receivables		**2,365**	1,181	439
Cash and cash equivalents		**9,263**	12,409	9,028
Assets classified as held for sale	3	**4,968**	–	5,310
Total assets		**84,512**	89,715	86,094

Condensed statement of consolidated cash flows
For the half year ended 30 June 2013

	Notes	**Half year ended 30 Jun 2013 £m**	Half year ended 30 Jun 2012 £m	Year ended 31 Dec 2012 £m
Cash flows from operating activities				
Cash generated/(utilised) by operations	16	**751**	915	(2,291)
Taxation paid		**(4)**	(70)	(70)
Net cash flows from operating activities		**747**	845	(2,361)
Cash flows from investing activities				
Purchase of property, plant and equipment		**–**	(1)	–
Net cash flows from investing activities		**–**	(1)	–
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**233**	–	–
Proceeds from issuing shares in subsidiaries to non-controlling interests		**–**	33	33
Proceeds of new policyholder borrowings		**–**	60	90
Ordinary share dividends paid	10	**(60)**	(36)	(72)
Coupon on Perpetual Reset Capital Securities paid		**(26)**	(26)	(26)
Dividends paid to non-controlling interests	11	**(12)**	(11)	(23)
Arrangement and structuring fees associated with the re-terming of the Impala loan facility		**(21)**	–	–
Repayment of policyholder borrowings		**(11)**	(11)	(43)
Repayment of shareholder borrowings		**(533)**	(104)	(172)
Interest paid on policyholder borrowings		**(4)**	(4)	(18)
Interest paid on shareholder borrowings		**(78)**	(59)	(103)
Net cash flows from financing activities		**(512)**	(158)	(334)
Net increase/(decrease) in cash and cash equivalents		**235**	686	(2,695)
Cash and cash equivalents at the beginning of the period		**9,028**	11,723	11,723
Cash and cash equivalents at the end of the period		**9,263**	12,409	9,028

Condensed statement of consolidated changes in equity
For the half year ended 30 June 2013

	Share capital (note 8) £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 11) £m	Total £m
At 1 January 2013	–	982	5	(10)	85	596	1,658	724	2,382
(Loss)/profit for the period	–	–	–	–	–	(27)	(27)	19	(8)
Other comprehensive income/ (expense) for the period	–	–	–	–	13	(9)	4	–	4
Total comprehensive income/ (expense) for the period	–	–	–	–	13	(36)	(23)	19	(4)
Issue of ordinary share capital, net of associated commissions and expenses	–	233	–	–	–	–	233	–	233
Dividends paid on ordinary shares (note 10)	–	(60)	–	–	–	–	(60)	–	(60)
Dividends paid on shares held by the employee trust and Group entities	–	1	–	–	–	–	1	–	1
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(12)	(12)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(20)	(20)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	3	3	–	3
Shares distributed by employee trust	–	–	–	2	–	(2)	–	–	–
Shares acquired by employee trust	–	–	–	(6)	–	–	(6)	–	(6)
Expired contingent rights (note 9)	–	–	(5)	–	–	5	–	–	–
At 30 June 2013	–	1,156	–	(14)	98	566	1,806	711	2,517

Condensed statement of consolidated changes in equity
For the half year ended 30 June 2012

	Share capital (note 8) £m	Share premium £m	Other reserves £m	Shares held by employee trust and Group entities £m	Foreign currency translation reserve £m	Retained earnings Restated £m	Total Restated £m	Non-controlling interests (note 11) £m	Total Restated £m
At 1 January 2012	–	1,054	5	(11)	93	511	1,652	714	2,366
Profit for the period	–	–	–	–	–	10	10	7	17
Other comprehensive expense for the period	–	–	–	–	–	(73)	(73)	–	(73)
Total comprehensive (expense)/ income for the period	–	–	–	–	–	(63)	(63)	7	(56)
Dividends paid on ordinary shares (note 10)	–	(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 dividends	–	1	–	–	–	–	1	–	1
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	–	35	35
At 30 June 2012	–	1,018	5	(11)	93	448	1,553	726	2,279

Condensed statement of consolidated changes in equity

For the year ended 31 December 2012

	Share capital (note 8) £m	Share premium £m	Other reserves £m	Shares held by employee trust and Group entities £m	Foreign currency translation reserve £m	Retained earnings Restated £m	Total Restated £m	Non-controlling interests (note 11) £m	Total Restated £m
At 1 January 2012	–	1,054	5	(11)	93	511	1,652	714	2,366
Profit for the period	–	–	–	–	–	407	407	17	424
Other comprehensive expense for the period	–	–	–	–	(8)	(327)	(335)	–	(335)
Total comprehensive (expense)/ income for the period	–	–	–	–	(8)	80	72	17	89
Dividends paid on ordinary shares (note 10)	–	(73)	–	–	–	–	(73)	–	(73)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(23)	(23)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(19)	(19)
Shares issued in lieu of cash dividends	–	1	–	–	–	–	1	–	1
Credit to equity for equity-settled share-based payments	–	–	–	–	–	5	5	–	5
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	–	35	35
Shares sold by employee trust	–	–	–	1	–	–	1	–	1
At 31 December 2012	–	982	5	(10)	85	596	1,658	724	2,382

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

The condensed consolidated interim financial statements for the half year ended 30 June 2013 comprise the interim financial statements of Phoenix Group Holdings ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 22 to 55 and were authorised by the Board of Directors for issue on 21 August 2013. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young Accountants LLP and their review report appears on page 21.

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 2012 consolidated financial statements which were prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted for use in the European Union, except for the adoption of new standards and interpretations effective as of 1 January 2013 referred to below. The interim financial statements do not include all the information and disclosures required in the 2012 consolidated financial statements, and should be read in conjunction with the Group's 2012 Annual Report and Accounts.

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

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1 *Presentation of Financial Statements*) (2013). The amendment requires companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement and to report separately those items that can never be reclassified to profit or loss.
- IAS 19 *Employee Benefits* (Amendment) (2013). The IASB has issued a number of amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications, re-wording and requiring additional disclosure.
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7 *Financial Instruments: Disclosures*) (2013). The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements. The new disclosure requirements are intended to help users of financial statements better assess the effect or potential effect of offsetting arrangements on an entity's financial position.
- IFRS 13 *Fair Value Measurement* (2013) defines fair value and sets out in a single IFRS a framework for measuring fair value.
- Annual Improvements to IFRS 2009-2011 cycle (2013). This makes a number of minor improvements to existing standards and interpretations.

The adoption of IAS 19 has resulted in a number of measurement and presentational differences, the effect of which are explained in note 2. The remaining standards, interpretations or amendments that have been applied for the first time in 2013 result in presentational changes to the interim financial statements and the inclusion of additional disclosures in the notes to the 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

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the 2012 consolidated financial statements except for the adoption of the revisions to IAS 19 and IFRS 13.

The Group has adopted IFRS 13 from 1 January 2013. For financial instruments that are recognised at fair value on a recurring basis, the Group will now determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the start of each reporting period.

The Group has adopted the revised version of IAS 19 (2011) with a date of initial application of 1 January 2013 and has consequently changed its basis for determining the income or expense related to defined benefit pension schemes.

As a result of the change, the Group now determines the net interest expense/income on the net surplus/deficit for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net surplus/deficit at the beginning of the annual period. It takes into account any changes in the net surplus/deficit during the period as a result of contributions and benefit payments. The net interest on the net surplus/deficit comprises:

- interest cost on the defined benefit obligation;
- interest income on scheme assets; and
- interest on the provision for tax on the economic surplus available as a refund and on the irrecoverable amount of deficit reduction contributions.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return and all changes in the provision for tax on the economic surplus available as a refund and in the irrecoverable amount of deficit reduction contributions were recognised in other comprehensive income.

This change in accounting policy has been applied retrospectively. The change has decreased the defined benefit expense recognised in the consolidated income statement and correspondingly increased the loss on remeasurements of the net defined benefit asset/liability recognised in other comprehensive income by £8 million for the half year ended 30 June 2012 and by £15 million for the year ended 31 December 2012.

The following table summarises the financial effects on the consolidated income statement and the statement of consolidated comprehensive income as a result of the implementation of the new accounting policy:

	Year ended 31 December 2012		Half year ended 30 June 2012	
	PGL Pension Scheme £m	**Pearl Group Staff Pension Scheme £m**	**PGL Pension Scheme £m**	**Pearl Group Staff Pension Scheme £m**
Consolidated income statement:				
Increase in net investment income	5	14	3	7
Increase in deferred tax expense	(1)	(3)	–	(2)
Net increase in profit for the year	4	11	3	5
Statement of consolidated comprehensive income:				
Decrease in remeasurements of net defined benefit asset/liability	(5)	(14)	(3)	(7)
Increase in tax effects on remeasurements of net defined benefit asset/liability	1	3	–	2
Net decrease in net remeasurements of net defined benefit asset/liability	(4)	(11)	(3)	(5)

The change in accounting policy had no impact on net assets or cash flows as at 31 December 2012 or 30 June 2012. The impact on earnings per share for these comparative periods was to increase basic and diluted earnings per share for the year ended 31 December 2012 by 8.7p per share to 235.0p and 234.9p per share respectively, and to increase basic and diluted earnings per share for the half year ended 30 June 2012 by 4.6p per share to 5.7p per share.

3. Assets and liabilities held for sale

The balances transferred to assets and liabilities classified as held for sale in the statement of consolidated financial position as at 30 June 2013 and 31 December 2012, relate to the anticipated Part VII transfer of a portfolio of wholly reinsured annuity liabilities to Guardian Assurance Limited ('Guardian') and the proposed sale of BA(GI) Limited ('BAGI') which comprise:

	Carrying amount 30 Jun 2013 £m	Carrying amount 30 Jun 2012 £m	Carrying amount 31 Dec 2012 £m
Assets classified as held for sale:			
Goodwill	**19**	–	19
Acquired in-force business	**138**	–	138
Financial assets	**55**	–	61
Reinsurer's share of insurance contract liabilities	**4,747**	–	5,083
Other assets	**9**	–	9
	4,968	–	5,310
Liabilities classified as held for sale:			
Liabilities under insurance contracts	**5,050**	–	5,404
Deferred tax liabilities	**23**	–	23
Payables related to direct insurance contracts	**47**	–	42
Other liabilities	**1**	–	10
	5,121	–	5,479

Annuity liabilities transfer

The Group entered into a reinsurance agreement, effective 1 July 2012, to reinsure certain portfolios of the Group's annuity liabilities to Guardian in exchange for the transfer of financial assets of £5.1 billion. It is anticipated that the reinsurance agreement will be replaced by a formal Part VII transfer of the annuity liabilities to Guardian in the second half of 2013 and accordingly the assets and liabilities to be transferred have been classified as held for sale.

Liabilities classified as held for sale include the annuity liabilities reinsured to Guardian. Assets classified as held for sale include the associated reinsurers' share of insurance contract liabilities and intangible assets.

The Group will make a net payment to Guardian at the time of the Part VII transfer for their assumption of the administration of the contracts.

General insurance

It is anticipated that the Group will complete a sale of its entire interest in BAGI during 2013 and accordingly its assets and liabilities have been classified as held for sale as at 30 June 2013 and 31 December 2012.

4. Segmental analysis

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

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

For management purposes, the Group is organised into business units based on their products and services and 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.

4.1 Segmental result

Half year ended 30 June 2013

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	635	–	–	–	635
Fees from:					
External customers	67	19	–	–	86
Other segment	–	43	–	(43)	–
	67	62	–	(43)	86
Net investment income:					
Recurring	898	–	–	–	898
Other operating income:					
Recurring	4	–	–	–	4
Net income	1,604	62	–	(43)	1,623
Net policyholder claims and benefits incurred:					
Recurring	(513)	–	–	–	(513)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	–	(2)	–	–	(2)
Amortisation of acquired in-force business	(58)	–	–	–	(58)
Amortisation of customer relationships	(7)	(2)	–	–	(9)
	(65)	(4)	–	–	(69)
Other operating expenses:					
Recurring	(915)	(41)	–	43	(913)
Non-recurring	(11)	(2)	(27)	–	(40)
	(926)	(43)	(27)	43	(953)
Total operating expenses	(1,504)	(47)	(27)	43	(1,535)
Profit/(loss) before finance costs and tax	100	15	(27)	–	88
Finance costs	(64)	–	(65)	–	(129)
Profit/(loss) before tax	36	15	(92)	–	(41)
Tax attributable to policyholders' returns	29	–	–	–	29
Segmental result before the tax attributable to owners	65	15	(92)	–	(12)

Half year ended 30 June 2012

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group Restated £m	Eliminations £m	Total Restated £m
Net premiums written from:					
External customers	771	–	–	–	771
Fees from:					
External customers	58	16	–	–	74
Other segment	–	48	–	(48)	–
	58	64	–	(48)	74
Net investment income:	1,887	1	7	–	1,895
Other operating income:					
External customers	4	1	–	(1)	4
Net income	2,720	66	7	(49)	2,744
Net policyholder claims and benefits incurred:					
Recurring	(1,966)	–	–	–	(1,966)
Depreciation, impairment 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	(555)	(46)	(4)	49	(556)
Non-recurring	(22)	(3)	(4)	–	(29)
	(577)	(49)	(8)	49	(585)
Total operating expenses	(2,617)	(53)	(8)	49	(2,629)
Profit/(loss) before finance costs and tax	103	13	(1)	–	115
Finance costs	(62)	–	(56)	–	(118)
Profit/(loss) before tax	41	13	(57)	–	(3)
Tax attributable to policyholders' returns	(16)	–	–	–	(16)
Segmental result before the tax attributable to owners	25	13	(57)	–	(19)

Year ended 31 December 2012

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group Restated £m	Eliminations £m	Total Restated £m
Net premiums written from:					
External customers	(3,564)	–	–	–	(3,564)
Fees from:					
External customers	123	34	–	–	157
Other segment	–	103	–	(103)	–
	123	137	–	(103)	157
Net investment income	4,585	1	14	–	4,600
Other operating income:					
External customers	13	–	–	–	13
Other segment	–	5	–	(5)	–
Net income	1,157	143	14	(108)	1,206
Net policyholder claims and benefits incurred:					
Recurring	763	–	–	–	763
Non-recurring	177	–	–	–	177
	940	–	–	–	940
Depreciation, impairment and amortisation:					
Depreciation of property, plant and equipment	–	(3)	–	–	(3)
Impairment losses on property, plant and equipment	(4)	–	–	–	(4)
Amortisation of acquired in-force business	(122)	–	–	–	(122)
Amortisation of customer relationships	(15)	(3)	–	–	(18)
	(141)	(6)	–	–	(147)
Other operating expenses:					
Recurring	(1,402)	(97)	(5)	108	(1,396)
Non-recurring	(37)	(2)	(7)	–	(46)
	(1,439)	(99)	(12)	108	(1,442)
Total operating expenses	(640)	(105)	(12)	108	(649)
Profit before finance costs and tax	517	38	2	–	557
Finance costs	(104)	–	(111)	–	(215)
Profit/(loss) before tax	413	38	(109)	–	342
Tax attributable to policyholders' returns	(33)	–	–	–	(33)
Segmental result before the tax attributable to owners	380	38	(109)	–	309

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

Half year ended 30 June 2013

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group £m	Total £m
Operating profit/(loss) before adjusting items	**178**	**19**	**(11)**	**186**
Investment return variances and economic assumption changes on long-term business	**(13)**	**–**	**–**	**(13)**
Variance on owners' funds	**(31)**	**–**	**11**	**(20)**
Amortisation of acquired in-force business	**(51)**	**–**	**–**	**(51)**
Amortisation of customer relationships	**(7)**	**(2)**	**–**	**(9)**
Non-recurring items	**(11)**	**(2)**	**(27)**	**(40)**
Finance costs attributable to owners	**–**	**–**	**(65)**	**(65)**
Segment result before the tax attributable to owners	**65**	**15**	**(92)**	**(12)**

Non-recurring items include:

- arrangement and structuring fees of £21 million associated with the re-terming of the Impala loan facility;
- regulatory change and systems transformation costs of £10 million; and
- restructuring costs and other one-off items of £9 million.

Half year ended 30 June 2012

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group Restated £m	Total Restated £m
Operating profit/(loss) before adjusting items	205	19	(7)	217
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	(57)	(19)

Non-recurring items include:

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

Year ended 31 December 2012

	Phoenix Life £m	Ignis Asset Management £m	Unallocated group Restated £m	Total Restated £m
Operating profit/(loss) before adjusting items	399	43	(13)	429
Investment return variances and economic assumption changes on long-term business	1	–	–	1
Variance on owners' funds	(35)	–	22	(13)
Amortisation of acquired in-force business	(109)	–	–	(109)
Amortisation of customer relationships	(15)	(3)	–	(18)
Non-recurring items	139	(2)	(7)	130
Finance costs attributable to owners	–	–	(111)	(111)
Segment result before the tax attributable to owners	380	38	(109)	309

Non-recurring items include:

- a gain of £177 million recognised upon entering into the reinsurance agreement with Guardian to transfer certain portfolios of annuity liabilities;
- regulatory change and systems transformation costs of £28 million; and
- restructuring costs of £19 million.

5. Investment return variances and economic assumption changes

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

5.1 Life assurance business

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

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 reflect the impact of the increase in credit spreads on corporate bonds and movements in equities, properties and yields.

5.2 Owners' funds

For non long-term business including owners' funds, the total investment income, including fair value gains, is analysed between a calculated 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 2013 £m	Half year ended 30 Jun 2012 £m	Year ended 31 Dec 2012 £m
Variance on owners' funds of:			
Subsidiary undertakings	**(19)**	(3)	(13)
The Company	**(1)**	1	–
	(20)	(2)	(13)

The negative variance on owners' funds of subsidiary undertakings of £19 million primarily relates to fair value losses on swap and equity hedging positions held within the shareholder funds. The variance on owners' funds of the Company comprises fair value losses arising from movements in the fair value of warrants in issue over the Company's shares.

5.3 Calculation of the long-term investment return

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the start of each financial year. The same margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties.

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

	Half year ended 30 Jun 2013 %	Half year ended 30 Jun 2012 %	Year ended 31 Dec 2012 %
Equities	**5.4**	5.6	5.6
Properties	**4.4**	4.6	4.6
Gilts (15 year gilt)	**2.4**	2.6	2.6
Other fixed interest	**3.4**	3.6	3.6

6. Tax (credit)/charge

6.1 Current period tax (credit)/charge

	Half year ended 30 Jun 2013 £m	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
Current tax:			
UK Corporation tax	**6**	17	24
Overseas tax	**9**	11	15
	15	28	39
Adjustment in respect of prior years	**(4)**	6	6
	11	34	45
Deferred tax:			
On amortisation of tax adjustments	**(5)**	–	–
Transitional adjustment on move to IFRS basis of taxation	**–**	–	88
Unwind of timing differences recognised under previous tax regime	**–**	–	(62)
Offset of 2012 losses against corresponding transitional gain	**–**	–	(32)
Other impacts of new life tax rules	**–**	–	(6)
	(5)	–	(12)
Recognition of deferred tax assets not previously valued	**–**	(22)	(42)
Reversal/origination of temporary differences:			
On amortisation of acquired in-force business	**(20)**	(19)	(40)
On amortisation of customer relationship intangible	**(2)**	(2)	(4)
Capital allowances in excess of depreciation	**–**	–	(1)
On accrued interest	**(14)**	(16)	(33)
On excess expenses and deferred acquisition costs	**(18)**	–	9
Pension scheme movements	**2**	6	16
On provisions for future expenditure	**2**	(1)	2
Other temporary differences	**2**	(2)	1
Tax losses arising in the current period carried forward	**(12)**	(11)	–
On non-profit surpluses	**–**	(2)	–
Utilisation of tax losses	**19**	35	8
Change in rate of corporation tax	**–**	(20)	(28)
Prior period deferred tax	**2**	–	(3)
	(44)	(54)	(127)
Total tax credit	**(33)**	(20)	(82)
Attributable to:			
– Policyholders	**(29)**	16	33
– Owners	**(4)**	(36)	(115)
	(33)	(20)	(82)

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 charge attributable to UK life assurance policyholder earnings is included in income tax. The tax benefit attributable to policyholder earnings was £29 million (half year ended 30 June 2012: £16 million charge; year ended 31 December 2012: £33 million charge).

6.2 Tax credited to other comprehensive income

	Half year ended 30 Jun 2013 £m	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
Deferred tax credit on defined benefit schemes	**–**	(5)	(114)

6.3 Reconciliation of tax (credit)/charge

	Half year ended 30 Jun 2013 £m	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
(Loss)/profit before tax	**(41)**	(3)	342
Policyholder tax credit/(charge)	**29**	(16)	(33)
(Loss)/profit before the tax attributable to owners	**(12)**	(19)	309
Tax (credit)/charge at standard UK[1] rate of 23.25% (2012: 24.5%)	**(3)**	(5)	75
Untaxed income and gains	**(5)**	–	(29)
Disallowable expenses	**3**	–	2
Adjustment to shareholders' tax charge in respect of prior periods	**7**	16	21
Movement on acquired in-force amortisation at less than 23.25% (2012: 24.5%)	**(1)**	1	–
Profits taxed at rates other than 23.25% (2012: 24.5%)	**(19)**	(11)	(35)
Recognition of previously unrecognised deferred tax assets	**–**	(22)	(85)
Prior year deferred tax	**2**	1	(3)
Deferred tax rate change	**–**	(20)	(36)
Current year losses not valued	**13**	2	–
Temporary differences not valued	**(1)**	4	(7)
Impact of new life tax regime	**–**	–	(12)
Other	**–**	(2)	(6)
Owners' tax credit	**(4)**	(36)	(115)
Policyholder tax (credit)/charge	**(29)**	16	33
Total tax credit for the period	**(33)**	(20)	(82)

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.

The Finance Act 2012 set the rate of corporation tax at 23% from 1 April 2013. Consequently a rate of 23% has been used for the purposes of providing for deferred tax in these interim financial statements. Further reductions to 21% in April 2014 and 20% from April 2015 have been announced and will be introduced by future legislation. The benefit to the Group's net assets arising from the further 3% reduction in the tax rate is estimated at £21 million (31 December 2012: £25 million) in total. The legislation was substantively enacted on 2 July 2013, so the benefit will be recognised in the 2013 year end financial statements.

The Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The deferred tax on the non-profit surplus has reversed and has been replaced with IFRS transitional adjustments. The deferred tax on the transitional adjustments will be amortised over a 10 year period on a straight-line basis commencing in 2013 and ending in 2022 as the IFRS tax transitional adjustment is brought into account in the current year tax computations.

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

	Half year ended 30 Jun 2013 £m	Year ended 31 Dec 2012 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	**67**	52
Excess expenses and deferred acquisition costs	**2**	–
Provisions and other temporary differences	**2**	7
Capital losses[2]	**191**	229

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

7. Earnings per share

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

	Half year ended 30 Jun 2013 £m	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
(Loss)/profit for the period	**(8)**	17	424
Share of result attributable to non-controlling interests	**(19)**	(7)	(17)
(Loss)/profit attributable to owners	**(27)**	10	407

The basic (loss)/earnings per share of (13.1p) (half year ended 30 June 2012 (restated): 5.7p; year ended 31 December 2012 (restated): 235.0p) has been based on the loss attributable to owners of the parent of £27 million (half year ended 30 June 2012 (restated): profit of £10 million; year ended 31 December 2012 (restated): profit of £407 million) and a weighted average number of ordinary shares outstanding during the period of 209 million (30 June 2012: 173 million; year ended 31 December 2012: 173 million), calculated as follows:

	Half year ended 30 Jun 2013 No. million	Half year ended 30 Jun 2012 No. million	Year ended 31 Dec 2012 No. million
Issued ordinary shares at beginning of the period	**174**	174	174
Effect of ordinary shares issued	**37**	–	–
Own shares held by employee trust and Group entities	**(2)**	(1)	(1)
Weighted average number of ordinary shares	**209**	173	173

The diluted (loss)/earnings per share of (13.1p) (half year ended 30 June 2012 (restated): 5.7p; year ended 31 December 2012 (restated): 234.9p) has been based on the loss attributable to owners of the parent of £27 million (half year ended 30 June 2012 (restated): profit of £10 million; year ended 31 December 2012 (restated): profit of £407 million) and a diluted weighted average number of ordinary shares outstanding during the period of 209 million (half year ended 30 June 2012: 173 million; year ended 31 December 2012: 173 million). As losses have an anti-dilutive effect none of the share-based awards have a dilutive effect for the half year ended 30 June 2013. The Group's deferred BSP share-based scheme increased the weighted average number of shares on a diluted basis by 20,630 shares for the half year ended 30 June 2012 and by 94,198 shares for the year ended 31 December 2012.

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

- 5 million warrants issued to certain entities providing finance to the Group on 2 September 2009;
- 12.36 million warrants issued to Royal London on 2 September 2009; and
- IPO warrants from 2 September 2009 on which date the exercise price of the outstanding warrants was increased from €7 to €11.

8. Share capital

	30 Jun 2013 £	30 Jun 2012 £	31 Dec 2012 £
Authorised:			
410 million (30 June 2012: 410 million; 31 December 2012: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750	31,750
Issued and fully paid:			
224.8 million (30 June 2012: 174.6 million; 31 December 2012: 174.6 million) ordinary shares of €0.0001 each	**18,415**	14,174	14,174

Movements in share capital during the period:

	Number	£
Shares in issue at 1 January 2013	**174,587,148**	**14,174**
Placement and open offer ordinary shares	**50,000,000**	**4,224**
Other ordinary shares issued in the period	**198,441**	**17**
Shares in issue at 30 June 2013	**224,785,589**	**18,415**

	Number	£
Shares in issue at 1 January 2012	174,472,815	14,165
Ordinary shares issued for scrip dividend	114,333	9
Shares in issue at 30 June 2012 and 31 December 2012	174,587,148	14,174

In January 2013 the Group announced an equity raising of £250 million as part of the re-terming of the Impala facility. The equity raising comprised equity placings with certain Och-Ziff funds and an open offer to raise aggregate proceeds of £250 million through the issuance on 21 February 2013 of 50 million ordinary shares. The proceeds of the equity raising net of deduction of commissions and expenses were £232 million.

During the year, the Company issued 198,441 shares at a total premium of £1 million in order to satisfy its obligation to employees under the Group's share schemes.

9. Other reserves

On 2 September 2009, the Company issued 36,000,000 contingent rights over its shares. On 5 July 2010, the Company completed the restructure of these contingent rights which saw 32,400,000 of the contingent rights over shares converted into the same number of ordinary shares. The holders of the contingent rights over shares would have been entitled to receive a further 3,600,000 ordinary shares in aggregate if before 22 June 2013 (i) an offer had been made to acquire all or a majority of the Company's issued ordinary share capital or substantially all of the Company's assets; or (ii) any party or parties acting in concert had become interested in more than 50% of the ordinary shares of the Company through the issue of shares by the Company.

None of these conditions were met by 22 June 2013 and therefore the remaining 3,600,000 contingent rights over shares will not be converted into ordinary shares. The balance of other reserves of £5 million has therefore been reclassified within equity to retained earnings.

10. Dividends on ordinary shares

	Half year ended 30 Jun 2013 £m	Half year ended 30 Jun 2012 £m	Year ended 31 Dec 2012 £m
Dividend paid in 2013 at 26.7p per share (half year ended 30 June 2012: 21p; year ended 31 December 2012: 42p)	**60**	37	73
Shares issued in lieu of dividends	**–**	(1)	(1)
Dividend paid in cash	**60**	36	72

On 21 March 2013, the Board recommended a dividend of 26.7p per share in respect of the year ended 31 December 2012. The dividend was approved at the Company's Annual General Meeting, which was held on 2 May 2013. The dividend was settled on 3 May 2013.

11. Non-controlling interests

	Perpetual Reset Capital Securities £m	**UK Commercial Property Trust Limited £m**	**Total £m**
At 1 January 2013	**408**	**316**	**724**
Profit for the period	**10**	**9**	**19**
Dividends paid	**–**	**(12)**	**(12)**
Coupons paid, net of tax relief	**(20)**	**–**	**(20)**
At 30 June 2013	**398**	**313**	**711**

	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 in subsidiaries subscribed for by non-controlling interest	–	35	35
At 30 June 2012	398	328	726
Profit for the period	10	–	10
Dividends paid	–	(12)	(12)
At 31 December 2012	408	316	724

11.1 Perpetual Reset Capital Securities

On 1 January 2010, Pearl Group Holdings (No.1) Limited ('PGH1') had in issue £500 million of Perpetual Reset Capital Securities ('the Notes'). Following amendments made to the Notes during 2010, the aggregate amount payable on redemption of the Notes is £425 million. On 25 April 2013, the 2013 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.

11.2 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.

12. Pension schemes

The condensed statement of consolidated financial position incorporates the reported surplus of the PGL Pension Scheme and the reported deficit of the Pearl Group Staff Pension Scheme as at 30 June 2013. The reported surplus of the PGL Pension Scheme amounted to £139 million (30 June 2012: £237 million, 31 December 2012: £137 million); this has been adjusted by £94 million (30 June 2012: £92 million, 31 December 2012: £95 million) to eliminate on consolidation the carrying value of insurance policies effected by the PGL Pension Scheme with the Group. The reported deficit of the Pearl Group Staff Pension Scheme amounted to £192 million (30 June 2012: surplus £20 million, 31 December 2012: deficit £197 million). Reported pension scheme surpluses are stated after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme. Reported pension scheme surpluses and deficits are stated after adjusting for the irrecoverable amount of future deficit reduction contributions.

The Group has adopted the revised version of IAS 19 (2011) with a date of initial application of 1 January 2013 and has consequently changed its basis for determining the income or expense related to the defined benefit pension schemes. See note 2 for details of the effect of adoption of this new accounting policy.

The triennial funding valuation of the PGL Pension Scheme is currently being performed and the initial estimate prepared by the actuary is that the deficit was £64 million as at 30 June 2012, using the technical provisions basis underlying the 2009 triennial valuation (updated for market conditions as at the valuation date). The triennial funding valuation of the Pearl Group Staff Pension Scheme as at 30 June 2012 was completed in May 2013 and the deficit as at 30 June 2012 was £480 million on the agreed technical provisions basis.

In April 2013, the Group commenced an Enhanced Transfer Value exercise which offered in-scope deferred members of the Pearl Group Staff Pension Scheme an Enhanced Cash Equivalent Transfer Value to exit the Scheme, thereby extinguishing any future liability and risk for the Group with respect to those members. An immaterial amount of transfers were made prior to 30 June 2013 and therefore there is no financial impact of this exercise on the condensed consolidated interim financial statements.

13. Liabilities under insurance contracts – assumptions

13.1 Valuation of participating insurance and investment contracts

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

13.2 Valuation of non-participating insurance contracts

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

13.3 Process used to determine assumptions

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

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

During the period, longevity improvement assumptions have been updated to reflect latest available published tables, reducing insurance liabilities by £12 million in the period (half year ended 30 June 2012: no material changes)

	Decrease in insurance liabilities 30 Jun 2013 £m	(Decrease)/ increase in insurance liabilities 31 Dec 2012 £m
Change in longevity assumptions	**(12)**	(5)
Change in persistency assumptions	**–**	32
Change in expense assumptions	**–**	(1)

14. Borrowings

	30 Jun 2013 £m	30 Jun 2012 £m	31 Dec 2012 £m
Carrying value			
Limited recourse bonds 2012 7.39%	**–**	11	–
Limited recourse bonds 2022 7.59%	**95**	90	85
Property reversions loan	**192**	211	194
£80 million facility agreement	**80**	80	80
£150 million term facility	**148**	120	150
Total policyholder borrowings	**515**	512	509
£200 million 7.25% unsecured subordinated loan	**147**	139	143
Unsecured loan notes	**–**	5	–
£2,260 million syndicated loan	**1,342**	1,915	1,852
£100 million PIK notes and facility	**119**	114	116
£75 million secured loan note	**76**	74	75
£425 million loan facility	**328**	351	351
Total shareholder borrowings	**2,012**	2,598	2,537
Total borrowings	**2,527**	3,110	3,046

On 14 May 2008, PGH (LC1) Limited and PGH (LC2) Limited jointly obtained a £2,260 million loan facility from a syndicate of external banks (the 'Impala Facility'). This facility was split into Tranche loans A, B and C of £1,275 million, £492.5 million and £492.5 million respectively. On 22 February 2013, Tranche A, Tranche B and Tranche C of the Impala Facility were converted into a single tranche term loan facility after a prepayment of £450 million was made.

The terms of this new facility are:

– repayment instalments of £30 million are due semi-annually on 30 June and 31 December each year;

– the facility maturity date is 31 December 2017, with the option for the Group to extend this date to 30 June 2019; and

– the facility bears interest at LIBOR plus a margin of 4.75% per annum which would increase by:

(i) 2.25% per annum after 31 December 2017 if the option to extend the final maturity date to 30 June 2019 is exercised; and

(ii) 0.5% per annum if additional target repayments of £60 million per annum have not occurred within the required period. The additional interest charge applies from the end of the period when the repayment was due until the repayment had been made.

The rate will be reduced by 0.25% per annum with effect from 1 January 2015 if by that date the borrowers have made voluntary repayments of not less than £200 million in addition to all mandatory and target repayments.

On 27 June 2013, a scheduled repayment of £30 million was made on the new facility in addition to a targeted repayment of £30 million made on 22 April 2013.

On 30 June 2013, a scheduled repayment of £23 million was made on the £425 million loan facility.

15. Financial instruments

Where we are giving disclosures in the interim report for the first time in accordance with IFRS 13, comparatives are not required. However, comparative information has been provided where it was disclosed in prior periods.

15.1 Fair values

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2013:

Financial assets

At 30 June 2013

	Carrying value £m	Fair value £m
Loans and receivables at amortised cost	2,271	2,274
Financial assets at fair value through profit or loss:		
Held for trading – derivatives	2,670	2,670
Designated upon initial recognition:		
Equities	11,203	11,203
Fixed and variable rate income securities	38,279	38,279
Collective investment schemes	6,409	6,409
	60,832	60,835
Less amounts classified as held for sale (note 3)	(55)	(55)
	60,777	60,780

Financial liabilities

At 30 June 2013

	Carrying value £m	Fair value £m
Financial liabilities at fair value through profit or loss:		
Designated upon initial recognition:		
Borrowings	192	192
Net asset value attributable to unitholders	5,269	5,269
Investment contract liabilities	8,327	8,327
Held for trading – derivatives	2,778	2,778
Financial liabilities measured at amortised cost:		
Borrowings	2,335	2,270
Obligations for repayment of collateral received	9,344	9,344
Deposits received from reinsurers	412	412
	28,657	28,592

Financial assets
At 31 December 2012

	Carrying value £m	Fair value £m
Loans and receivables at amortised cost	1,914	1,912
Financial assets at fair value through profit or loss:		
Held for trading – derivatives	3,665	3,665
Designated upon initial recognition:		
Equities	11,005	11,005
Fixed and variable rate income securities	40,945	40,945
Collective investment schemes	6,052	6,052
	63,581	63,579
Less amounts classified as held for sale (note 3)	(61)	(61)
	63,520	63,518

Financial liabilities
At 31 December 2012

	Carrying value £m	Fair value £m
Financial liabilities at fair value through profit or loss:		
Designated upon initial recognition:		
Borrowings	194	194
Net asset value attributable to unitholders	4,671	4,671
Investment contract liabilities	8,096	8,096
Held for trading – derivatives	3,026	3,026
Financial liabilities measured at amortised cost:		
Borrowings	2,852	2,758
Obligations for repayment of collateral received	10,458	10,458
Deposits received from reinsurers	454	454
	29,751	29,657

15.2 Fair value hierarchy

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

Level 1 financial instruments

The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values.

Level 2 financial instruments

The fair values of investments that are not traded in an active market are determined using valuation techniques with observable market inputs. The fair value of shares and other variable yield securities and derivative financial instruments, are estimated using pricing models, discounted cash flow techniques or broker quotes. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

Level 3 financial instruments

The Group's financial assets determined by valuation techniques using non observable inputs are based on a combination of independent third party evidence and internally developed models. Third party evidence in the form of net asset valuation statements, are used in the valuation of the majority of indirect property, private equity and hedge funds. Broker quotes are received for certain bonds where the market is considered to be inactive. Internally developed models have been used in the valuation of a small number of investment vehicles which due to their nature and complexity have no external market. Inputs into the internally developed models are based on market observable data where available.

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

15.2.2 Fair value hierarchy of financial instruments measured at fair value
At 30 June 2013

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	27	2,639	4	2,670
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	10,159	143	901	11,203
Fixed and variable rate income securities	28,305	9,574	400	38,279
Collective investment schemes	5,181	1,055	173	6,409
	43,645	10,772	1,474	55,891
Less amounts classified as held for sale (note 3)	(55)	–	–	(55)
Total financial assets at fair value	43,617	13,411	1,478	58,506

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	13	2,765	–	2,778
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	–	8,327	–	8,327
Borrowings	–	192	–	192
Net asset value attributable to unitholders	5,231	–	38	5,269
	5,231	8,519	38	13,788
Total financial liabilities at fair value	5,244	11,284	38	16,566

At 30 June 2012

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	–	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 at fair value	46,516	16,673	1,949	65,138

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	–	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 at fair value	4,161	12,097	178	16,436

At 31 December 2012

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	37	3,616	12	3,665
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	10,017	178	810	11,005
Fixed and variable rate income securities	28,997	11,448	500	40,945
Collective investment schemes	5,048	846	158	6,052
	44,062	12,472	1,468	58,002
Less amounts classified as held for sale (note 3)	(61)	–	–	(61)
Total financial assets at fair value	44,038	16,088	1,480	61,606

At 31 December 2012

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	–	3,023	3	3,026
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	–	8,096	–	8,096
Borrowings	–	194	–	194
Net asset value attributable to unitholders	4,601	–	70	4,671
	4,601	8,290	70	12,961
Total financial liabilities at fair value	4,601	11,313	73	15,987

15.2.3 Level 3 financial instrument sensitivities

Included in Level 3 investments is a property investment structure with a value of £110 million (31 December 2012: £102 million). It has been valued by taking the fair value of the property within the structure, which has been independently valued, less the fair value of the debt within the structure. The valuation is sensitive to movements in yields on the underlying property portfolio. An increase in yields of 25bps would reduce the value of the investment by £25 million (31 December 2012: £25 million) and a reduction in yields of 25bps would increase the value by £22 million (31 December 2012: £22 million).

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

Debt securities categorised as Level 3 investments are valued using broker quotes. Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

15.2.4 Transfers of financial instruments between Level 1 and Level 2

30 June 2013

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition		
Fixed and variable rate income securities	**241**	**528**
Collective investment schemes	**210**	**–**

There were no transfers of financial liabilities at fair value between Level 1 and Level 2 and between Level 2 and Level 1.

All the Group's Level 1 and Level 2 assets have been valued using standard market pricing sources, which have not changed during 2013.

The Group saw an improvement in the liquidity of certain of its fixed and variable rate securities holdings throughout 2013, which resulted in an overall net movement of securities from Level 2 into Level 1.

15.2.5 Movement in Level 3 financial instruments measured at fair value
30 June 2013

	At 1 January 2013 £m	Total (losses)/ gains in income statement £m	Purchases and sales £m	Transfers (to)/from Level 1 and Level 2 £m	At 30 June 2013 £m	Unrealised (losses)/ gains on assets held at end of period £m
Financial assets						
Derivatives	**12**	**(7)**	**(1)**	**–**	**4**	**(8)**
Financial assets designated at fair value through profit or loss upon initial recognition:						
Equities	**810**	**32**	**23**	**36**	**901**	**47**
Fixed and variable rate income securities	**500**	**27**	**(103)**	**(24)**	**400**	**23**
Collective investment schemes	**158**	**17**	**(19)**	**17**	**173**	**15**
	1,468	**76**	**(99)**	**29**	**1,474**	**85**
Total financial assets	**1,480**	**69**	**(100)**	**29**	**1,478**	**77**

	At 1 January 2013 £m	Total (gains)/ losses in income statement £m	Purchases and sales £m	Transfers to Level 1 and Level 2 £m	At 30 June 2013 £m	Unrealised gains on assets held at end of period £m
Financial liabilities						
Derivatives	**3**	**(3)**	**–**	**–**	**–**	**–**
Financial liabilities designated at fair value through profit or loss upon initial recognition:						
Net asset value attributable to unitholders	**70**	**6**	**(38)**	**–**	**38**	**6**
Total financial liabilities	**73**	**3**	**(38)**	**–**	**38**	**6**

During 2013, updates to the Group's observations with regard to the liquidity of certain equity and collective investment holdings resulted in a net transfer into Level 3 from Levels 1 and 2.

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

30 June 2012

	At 1 January 2012 £m	Total (losses)/gains in income statement £m	Purchases and sales £m	Transfers from Level 1 and Level 2 £m	At 30 June 2012 £m
Financial assets					
Derivatives	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

15.2.5 Movement in Level 3 financial instruments measured at fair value
30 June 2012

	At 1 January 2012 £m	Total losses in income statement £m	Purchases and sales £m	Transfers to Level 1 and Level 2 £m	At 30 June 2012 £m
Financial liabilities					
Derivatives	–	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

31 December 2012

	At 1 January 2012 £m	Total (losses)/gains in income statement £m	Purchases and sales £m	Transfers to Level 1 and Level 2 £m	At 31 December 2012 £m	Unrealised losses on assets held at end of period £m
Financial assets						
Derivatives	61	(28)	(21)	–	12	(26)
Financial assets designated at fair value through profit or loss upon initial recognition:						
Equities	814	9	(9)	(4)	810	(6)
Fixed and variable rate income securities	862	(67)	(171)	(124)	500	(72)
Collective investment schemes	232	(11)	(55)	(8)	158	(4)
	1,908	(69)	(235)	(136)	1,468	(82)
Total financial assets	1,969	(97)	(256)	(136)	1,480	(108)

	At 1 January 2012 £m	Total losses in income statement £m	Purchases and sales £m	Transfers to Level 1 and Level 2 £m	At 31 December 2012 £m	Unrealised (losses)/gains on assets held at end of period £m
Financial liabilities						
Derivatives	–	3	–	–	3	(4)
Financial liabilities designated at fair value through profit or loss upon initial recognition:						
Net asset value attributable to unitholders	169	2	(101)	–	70	2
Total financial liabilities	169	5	(101)	–	73	(2)

15.3 Offsetting financial assets and financial liabilities

The table below contains disclosures related to financial assets and financial liabilities that are offset in the consolidated condensed statement of financial position or are subject to enforceable master netting arrangements or similar agreements.

At 30 June 2013

Financial assets	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off £m	Net amounts of financial assets presented £m	Related amounts not offset: Financial instruments £m	Related amounts not offset: Cash collateral received £m	Related amounts not offset: Derivative liabilities £m	Net amount £m
OTC derivatives	**2,639**	**–**	**2,639**	**134**	**712**	**1,738**	**55**
Exchange traded derivatives	**31**	**–**	**31**	**–**	**17**	**8**	**6**
Loans and receivables	**2,052**	**–**	**2,052**	**2,178**	**–**	**–**	**(126)**
Stock lending	**8,529**	**–**	**8,529**	**70**	**8,632**	**–**	**(173)**
Total	**13,251**		**13,251**	**2,382**	**9,361**	**1,746**	**(238)**

Financial liabilities	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off £m	Net amounts of financial liabilities presented £m	Related amounts not offset: Financial instruments £m	Related amounts not offset: Cash collateral pledged £m	Related amounts not offset: Derivative assets £m	Net amount £m
OTC derivatives	**2,761**	**–**	**2,761**	**523**	**456**	**1,738**	**44**
Exchange traded derivatives	**17**	**–**	**17**	**–**	**5**	**8**	**4**
Total	**2,778**	**–**	**2,778**	**523**	**461**	**1,746**	**48**

At 31 December 2012

Financial assets	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off £m	Net amounts of financial assets presented £m	Related amounts not offset: Financial instruments £m	Related amounts not offset: Cash collateral received £m	Related amounts not offset: Derivative assets £m	Net amount £m
OTC derivatives	3,619	–	3,619	236	1,340	1,916	127
Exchange traded derivatives	46	–	46	–	1	2	43
Loans and receivables	1,683	–	1,683	1,785	–	–	(102)
Stock lending	9,179	–	9,179	83	9,269	–	(173)
Total	14,527	–	14,527	2,104	10,610	1,918	(105)

Financial liabilities	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off £m	Net amounts of financial liabilities presented £m	Related amounts not offset: Financial instruments £m	Related amounts not offset: Cash collateral pledged £m	Related amounts not offset: Derivative assets £m	Net amount £m
OTC derivatives	3,002	–	3,002	582	491	1,916	13
Exchange traded derivatives	21	–	21	–	2	2	17
Other	3	–	3	–	–	–	3
Total	3,026	–	3,026	582	493	1,918	33

16. Cash flows from operating activities

	Half year ended 30 Jun 2013 £m	Half year ended 30 Jun 2012 Restated £m	Year ended 31 Dec 2012 Restated £m
(Loss)/profit for the period before tax	**(41)**	(3)	342
Non-cash movements in profit/(loss) for the period before tax			
Fair value losses/(gains) on:			
Investment property	**10**	40	85
Financial assets	**285**	(226)	(1,445)
Change in fair value of borrowings	**24**	10	11
Depreciation of property, plant and equipment	**2**	1	3
Impairment of owner occupied property	**–**	4	4
Amortisation of intangible assets	**67**	73	140
Change in present value of future profits	**(6)**	–	–
Change in unallocated surplus	**38**	–	45
Share-based payment charge	**3**	–	5
Interest expense on borrowings	**129**	118	215
Net interest income on pension schemes	**(1)**	(7)	(19)
Other losses on pension schemes	**–**	1	2
Decrease in investment assets	**2,844**	2,063	7,082
Decrease in reinsurance assets	**481**	139	156
Decrease in insurance contract and investment contract liabilities	**(1,890)**	(629)	(6,262)
Decrease in deposits received from reinsurers	**(42)**	(5)	(18)
Decrease in obligation for repayment of collateral received	**(1,114)**	(603)	(2,547)
Net increase in working capital	**(38)**	(61)	(90)
Cash generated/(utilised) by operations	**751**	915	(2,291)

17. 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 2012.

There were no transactions with related parties during the six months ended 30 June 2013, which have had a material effect on the results or financial position of the Group.

18. Contingent liabilities

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

19. Events after the reporting period

On 21 August 2013, the Board declared an interim dividend per share of 26.7p for the half year ended 30 June 2013. The cost of this dividend has not been recognised as a liability in the interim financial statements for the period to 30 June 2013 and will be charged to the statement of consolidated changes in equity when paid.

Additional life company asset disclosures

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies 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 2013

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	1,602	877	6,481	1,189	10,149
Debt securities – gilts	1,550	2,259	9,431	379	13,619
Debt securities – bonds	5,793	2,133	10,298	945	19,169
Equity securities	384	14	6,009	7,886	14,293
Property investments	149	97	1,052	292	1,590
Other investments[4]	473	(94)	2,495	24	2,898
As at 30 June 2013	9,951	5,286	35,766	10,715	61,718
Collective investment schemes					5,639
UKCPT					502
Cash held in other Group entities					1,080
Corporate derivative liabilities					(22)
Adjustments on consolidation					2
Total Group consolidated assets					68,919
Comprised of:					
Investment property					1,657
Financial assets					60,777
Cash and cash equivalents					9,263
Derivative liabilities					(2,778)
					68,919

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 £2,051 million, policy loans of £14 million, other loans of £24 million, net derivatives liabilities of £101 million and other investments of £910 million.

31 December 2012

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	2,448	925	8,298	972	12,643
Debt securities – gilts	1,478	2,369	10,255	800	14,902
Debt securities – bonds	5,356	2,244	10,357	872	18,829
Equity securities	378	14	5,889	7,517	13,798
Property investments	132	103	1,074	308	1,617
Other investments[1]	742	161	2,279	25	3,207
As at 31 December 2012	10,534	5,816	38,152	10,494	64,996
Collective investment schemes					5,339
UKCPT					587
Cash held in other Group entities					352
General insurance business					8
Corporate derivative liabilities					(36)
Adjustments on consolidation					3
Total Group consolidated assets					71,249
Comprised of:					
Investment property					1,727
Financial assets					63,520
Cash and cash equivalents					9,028
Derivative liabilities					(3,026)
					71,249

1 Includes repurchase loans of £1,683 million, policy loans of £16 million, other loans of £22 million, net derivatives of £647 million and other investments of £839 million.

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

30 June 2013

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	**1,550**	**2,259**	**9,431**	**379**	**13,619**
Other government and supranational[1]	**963**	**720**	**2,430**	**299**	**4,412**
Corporate – financial institutions	**2,228**	**610**	**3,900**	**166**	**6,904**
Corporate – other	**2,378**	**387**	**2,782**	**462**	**6,009**
Asset backed securities ('ABS')	**224**	**416**	**1,186**	**18**	**1,844**
As at 30 June 2013	**7,343**	**4,392**	**19,729**	**1,324**	**32,788**

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

31 December 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	1,478	2,369	10,255	800	14,902
Other government and supranational	867	703	1,995	150	3,715
Corporate – financial institutions	1,974	581	3,721	184	6,460
Corporate – other	2,283	536	3,723	517	7,059
Asset backed securities ('ABS')	232	424	918	21	1,595
As at 31 December 2012	6,834	4,613	20,612	1,672	33,731

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

30 June 2013

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**1,656**	**2,338**	**9,957**	**569**	**14,520**
European Investment Bank	**401**	**346**	**780**	**39**	**1,566**
USA	**3**	**16**	**8**	**20**	**47**
Germany	**417**	**260**	**863**	**19**	**1,559**
France	**3**	**–**	**7**	**3**	**13**
Netherlands	**11**	**–**	**31**	**2**	**44**
Portugal	**–**	**–**	**–**	**–**	**–**
Italy	**–**	**–**	**–**	**3**	**3**
Ireland	**–**	**–**	**–**	**–**	**–**
Greece	**–**	**–**	**–**	**–**	**–**
Spain	**–**	**4**	**–**	**2**	**6**
Other – non-Eurozone	**14**	**6**	**165**	**17**	**202**
Other – Eurozone	**8**	**9**	**50**	**4**	**71**
As at 30 June 2013	**2,513**	**2,979**	**11,861**	**678**	**18,031**

31 December 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	1,482	2,369	10,356	800	15,007
European Investment Bank	396	380	669	57	1,502
USA	3	17	18	23	61
Germany	425	286	967	26	1,704
France	4	–	21	2	27
Netherlands	17	–	57	3	77
Portugal	–	–	–	–	–
Italy	–	–	–	5	5
Ireland	–	–	–	–	–
Greece	–	–	–	–	–
Spain	–	4	–	2	6
Other – non-Eurozone	11	7	128	27	173
Other – Eurozone	7	9	34	5	55
As at 31 December 2012	2,345	3,072	12,250	950	18,617

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

30 June 2013

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	**1,246**	**406**	**1,751**	**91**	**3,494**
USA	**335**	**72**	**529**	**13**	**949**
Germany	**118**	**29**	**275**	**17**	**439**
France	**77**	**2**	**140**	**1**	**220**
Netherlands	**220**	**58**	**588**	**29**	**895**
Portugal	**–**	**–**	**–**	**–**	**–**
Italy	**26**	**–**	**21**	**–**	**47**
Ireland	**–**	**–**	**–**	**–**	**–**
Greece	**–**	**–**	**–**	**–**	**–**
Spain	**3**	**–**	**14**	**–**	**17**
Other – non-Eurozone	**116**	**25**	**371**	**8**	**520**
Other – Eurozone	**87**	**18**	**211**	**7**	**323**
As at 30 June 2013	**2,228**	**610**	**3,900**	**166**	**6,904**

31 December 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	1,172	437	2,141	139	3,889
USA	319	81	547	18	965
Germany	73	4	132	–	209
France	63	1	84	2	150
Netherlands	225	41	516	22	804
Portugal	–	–	–	–	–
Italy	2	–	15	–	17
Ireland	–	–	1	–	1
Greece	–	–	–	–	–
Spain	3	1	14	–	18
Other – non-Eurozone	68	13	201	3	285
Other – Eurozone	49	3	70	–	122
As at 31 December 2012	1,974	581	3,721	184	6,460

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

30 June 2013

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	**1,260**	**161**	**1,319**	**378**	**3,118**
USA	**307**	**69**	**290**	**12**	**678**
Germany	**187**	**56**	**343**	**20**	**606**
France	**196**	**80**	**274**	**11**	**561**
Netherlands	**64**	**–**	**80**	**4**	**148**
Portugal	**–**	**–**	**7**	**–**	**7**
Italy	**50**	**1**	**87**	**3**	**141**
Ireland	**3**	**–**	**7**	**–**	**10**
Greece	**2**	**–**	**3**	**–**	**5**
Spain	**21**	**–**	**50**	**3**	**74**
Other – non-Eurozone	**188**	**18**	**183**	**11**	**400**
Other – Eurozone	**100**	**2**	**139**	**20**	**261**
As at 30 June 2013	**2,378**	**387**	**2,782**	**462**	**6,009**

31 December 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	1,258	260	2,019	420	3,957
USA	257	78	401	17	753
Germany	89	35	135	5	264
France	149	82	276	14	521
Netherlands	192	52	386	20	650
Portugal	–	–	6	–	6
Italy	54	1	81	4	140
Ireland	6	–	27	–	33
Greece	4	–	4	–	8
Spain	29	–	57	3	89
Other – non-Eurozone	113	21	187	16	337
Other – Eurozone	132	7	144	18	301
As at 31 December 2012	2,283	536	3,723	517	7,059

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

30 June 2013

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	**157**	**279**	**723**	**18**	**1,177**
USA	**43**	**–**	**17**	**–**	**60**
Germany	**–**	**10**	**99**	**–**	**109**
France	**–**	**4**	**17**	**–**	**21**
Netherlands	**1**	**63**	**172**	**–**	**236**
Portugal	**–**	**–**	**1**	**–**	**1**
Italy	**–**	**4**	**9**	**–**	**13**
Ireland	**13**	**25**	**69**	**–**	**107**
Greece	**–**	**–**	**–**	**–**	**–**
Spain	**–**	**4**	**9**	**–**	**13**
Other – non-Eurozone	**9**	**4**	**12**	**–**	**25**
Other – Eurozone	**1**	**23**	**58**	**–**	**82**
As at 30 June 2013	**224**	**416**	**1,186**	**18**	**1,844**

31 December 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	176	330	635	21	1,162
USA	36	–	19	–	55
Germany	1	13	61	–	75
France	–	2	7	–	9
Netherlands	1	29	64	–	94
Portugal	–	–	1	–	1
Italy	–	5	15	–	20
Ireland	12	16	60	–	88
Greece	–	–	–	–	–
Spain	–	7	16	–	23
Other – non-Eurozone	5	5	6	–	16
Other – Eurozone	1	17	34	–	52
As at 31 December 2012	232	424	918	21	1,595

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

30 June 2013

Credit rating analysis of debt portfolio	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
AAA	**1,122**	**915**	**2,701**	**82**	**4,820**
AA	**2,031**	**2,681**	**11,035**	**450**	**16,197**
A	**1,623**	**556**	**2,697**	**134**	**5,010**
BBB	**1,686**	**204**	**2,526**	**174**	**4,590**
BB	**169**	**16**	**340**	**14**	**539**
B and below	**46**	**4**	**355**	**2**	**407**
Non-rated	**666**	**16**	**75**	**468**	**1,225**
As at 30 June 2013	**7,343**	**4,392**	**19,729**	**1,324**	**32,788**

31 December 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	2,746	3,677	13,709	720	20,852
AA	501	268	1,378	61	2,208
A	1,318	508	2,251	137	4,214
BBB	1,394	128	2,391	210	4,123
BB	288	14	219	14	535
B and below	359	–	66	–	425
Non-rated	228	18	598	530	1,374
As at 31 December 2012	6,834	4,613	20,612	1,672	33,731

MCEV supplementary information

In this section

64 Statement of Directors' responsibilities

65 Auditor's review report

66 MCEV interim financial statements and notes

Statement of Directors’ responsibilities in respect of the Market Consistent Embedded Value (‘MCEV’)

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

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

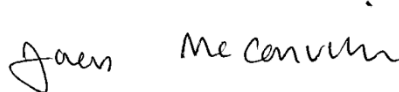
- risk-free rates have been defined as the annually compounded UK Government bond nominal spot curve plus 10 basis points rather than as the swap rate curve;
- the value of asset management and the management service companies has been included on an IFRS basis; and
- no allowance for the costs of residual 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
21 August 2013

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 2013 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 70 to 79. 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 2013. 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 70 to 73.

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 70 to 73.

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 2013 has not been prepared, in all material respects, in accordance with the basis of preparation set out on pages 70 to 73.

Ernst & Young LLP
London

21 August 2013

MCEV interim financial statements and notes
Summarised consolidated income statement – Group MCEV basis
For the half year ended 30 June 2013

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 Restated[1] £m	Year ended 31 December 2012 £m
Life MCEV operating earnings	**165**	205	360
Management services operating profit	**18**	10	28
Ignis Asset Management operating profit	**19**	19	43
Group costs	**(13)**	(14)	(25)
Group MCEV operating earnings before tax	**189**	220	406
Economic variances on life business	**(30)**	(61)	24
Economic variances on non-life business	**(43)**	19	(6)
Other non-operating variances on life business	**(3)**	27	39
Non-recurring items on non-life business	**(38)**	(18)	(39)
Finance costs attributable to owners	**(84)**	(75)	(123)
Group MCEV earnings before tax	**(9)**	112	301
Tax on operating earnings	**(44)**	(54)	(99)
Tax on non-operating earnings	**9**	6	–
Total tax	**(35)**	(48)	(99)
Group MCEV earnings after tax	**(44)**	64	202

1 During 2012, the Group amended its MCEV policy for recognising contributions to Group pension schemes in an IFRS (IAS 19) surplus position (refer to note 1g). The 2012 half year comparatives have been restated in this regard. The impact of the restatement for the half year ended 30 June 2012 is to reduce 'Group costs' by £15 million from £29 million to £14 million, to increase 'Tax on operating earnings' by £4 million from £50 million to £54 million and to reduce other comprehensive income by £11 million.

MCEV earnings per ordinary share
For the half year ended 30 June 2013

	Half year ended 30 June 2013	Half year ended 30 June 2012 Restated	Year ended 31 December 2012
Group MCEV operating earnings after tax			
Basic[1]	**69.1p**	95.8p	177.1p
Diluted[2]	**69.1p**	95.8p	177.0p
Group MCEV earnings after tax			
Basic[1]	**(20.9p)**	36.9p	116.5p
Diluted[2]	**(20.9p)**	36.9p	116.5p

1 Based on 209 million shares (half year ended 30 June 2012: 173 million; year ended 31 December 2012: 173 million) as set out in note 7 of the IFRS condensed consolidated interim financial statements.

2 Based on 209 million shares (half year ended 30 June 2012: 173 million; year ended 31 December 2012: 173 million), allowing for share options in issue as set out in note 7 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 23.25% (half year ended 30 June 2012: 24.5%; year ended 31 December 2012: 24.5%).

Statement of consolidated comprehensive income – Group MCEV basis

For the half year ended 30 June 2013

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 Restated £m	Year ended 31 December 2012 £m
Group MCEV earnings after tax	**(44)**	64	202
Other comprehensive income			
Actuarial losses and pension scheme contributions on defined benefit pension schemes (net of tax)	**(2)**	(11)	(131)
Total comprehensive income	**(46)**	53	71

Reconciliation of movement in equity – Group MCEV basis

For the half year ended 30 June 2013

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year ended 31 December 2012 £m
Opening Group MCEV equity	**2,122**	2,118	2,118
Total comprehensive income	**(46)**	53	71
Movement in equity for equity-settled share-based payments	**3**	–	5
Dividends paid on ordinary shares	**(60)**	(37)	(73)
Shares issued in lieu of dividends	**–**	1	1
Issue of ordinary share capital, net of associated commissions and expenses	**233**	–	–
Dividends paid on shares held by the employee trust and Group entities	**1**	–	–
Shares acquired by the employee trust	**(6)**	–	–
Total capital and dividend flows – external	**171**	(36)	(67)
Closing Group MCEV equity	**2,247**	2,135	2,122

Group MCEV analysis of earnings
For the half year ended 30 June 2013

	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 2013	**3,263**	**115**	**86**	**(1,342)**	**2,122**
Operating MCEV earnings (after tax)	**127**	**14**	**15**	**(11)**	**145**
Non-operating MCEV earnings (after tax)	**(25)**	**(4)**	**(3)**	**(157)**	**(189)**
Total MCEV earnings	**102**	**10**	**12**	**(168)**	**(44)**
Other comprehensive income	**–**	**–**	**–**	**(2)**	**(2)**
Capital and dividend flows – internal	**(422)**	**1**	**–**	**421**	**–**
Capital and dividend flows – external	**–**	**–**	**–**	**171**	**171**
Closing value at 30 June 2013	**2,943**	**126**	**98**	**(920)**	**2,247**

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 2012 (restated)

	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 2012	3,804	82	68	(1,836)	2,118
Operating MCEV earnings (after tax)	155	8	14	(11)	166
Non-operating MCEV earnings (after tax)	(25)	(7)	(2)	(68)	(102)
Total MCEV earnings	130	1	12	(79)	64
Other comprehensive income	–	–	–	(11)	(11)
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

Group MCEV analysis of earnings
For the year ended 31 December 2012

	Covered business MCEV £m	Non-covered business Management services IFRS £m	Non-covered business Asset Management IFRS £m	Non-covered business Other Group companies IFRS £m	Group MCEV £m
Group MCEV at 1 January 2012	3,804	82	68	(1,836)	2,118
Operating MCEV earnings (after tax)	272	22	32	(19)	307
Non-operating MCEV earnings (after tax)	48	(2)	3	(154)	(105)
Total MCEV earnings	320	20	35	(173)	202
Other comprehensive income	–	–	–	(131)	(131)
Capital and dividend flows – internal	(861)	13	(17)	865	–
Capital and dividend flows – external	–	–	–	(67)	(67)
Closing value at 31 December 2012	3,263	115	86	(1,342)	2,122

Reconciliation of Group IFRS equity to MCEV net worth

	30 June 2013 £m	30 June 2012 £m	31 December 2012 £m
Group net assets attributable to owners of the parent as reported under IFRS	**1,806**	1,553	1,658
Goodwill and other intangibles in accordance with IFRS removed (net of tax)	**(411)**	(436)	(431)
Value of in-force business in accordance with IFRS removed (net of tax)	**(1,196)**	(1,108)	(1,234)
Adjustments to IFRS reserving	**(168)**	(43)	(203)
Tax adjustments	**25**	(18)	6
Revalue listed debt to market value	**42**	167	123
Eliminate value of contingent loan asset[1]	**–**	(160)	–
Fair value adjustments[2]	**7**	1	4
Eliminate pension scheme surpluses[3] (net of tax)	**(194)**	(312)	(186)
Other adjustments	**(4)**	23	8
MCEV net worth attributable to owners of the parent	**(93)**	(333)	(255)
MCEV value of in-force business included (net of tax) as set out in note 2	**2,340**	2,468	2,377
Closing Group MCEV	**2,247**	2,135	2,122

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 Pension scheme surpluses valued on an IFRS basis are removed. This includes the IFRIC 14 adjustments as described in note 1(g) of the MCEV interim financial statements and notes.

1. Basis of preparation

Overview

The supplementary information on pages 66 to 79 has been prepared on a Market Consistent Embedded Value ('MCEV') basis except for the items described further below.

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

- risk-free rates have been defined as the annually compounded UK Government nominal spot curve plus 10 basis points rather than as 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.

In January 2013 the Group announced an equity raising of £250 million as part of the re-terming of the Impala facility. The equity raising comprised equity placings with certain Och-Ziff funds and an open offer to raise aggregate gross proceeds of £250 million through the issuance on 21 February 2013 of 50 million ordinary shares. The Group MCEV reported at 30 June 2013 includes the proceeds of the equity raising net of deduction of commissions, fees and expenses of £232 million as well as the arrangement and restructuring fees of £21 million paid in connection with the amendments to the Impala facility agreement and a £450 million prepayment on 22 February 2013. The value of in-force business included in the MCEV at 31 December 2012 was already reduced by £21 million to reflect the lower level of tax attributes expected to be available to relieve tax on emerging surpluses due to the accelerated repayment of debt.

The Finance Act 2012 also set the rate of corporation tax at 23% from 1 April 2013. Consequently a rate of 23% has been used for the closing MCEV at 30 June 2013. Further reductions to 21% in April 2014 and 20% from April 2015 have been announced and will be introduced by future legislation. The legislation was substantively enacted on 2 July 2013 and the benefit of the further 3% reduction in the tax rate will therefore be recognised in the year end MCEV, but is not expected to be significant.

The Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The new rules were reflected in the 31 December 2012 MCEV and did not have a significant impact.

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 Assurance Limited ('Guardian'). It is expected that the reinsurance agreement will be replaced by a formal Part VII transfer of the annuity liabilities to Guardian in the second half of 2013. The 30 June 2013 Group MCEV allows for the expense savings of £146 million expected following the Part VII transfer of the annuity liabilities to Guardian.

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

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

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

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

Frictional cost of capital ('COC')
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% of Pillar 1 capital or 147% of Pillar 2 capital (30 June 2012: Pillar 1: 129%, Pillar 2: 150%; 31 December 2012: Pillar 1: 129%, Pillar 2: 150%).

Solvency II aims to introduce a new capital regime for insurers. These disclosures do not take account of the impact of the change in regime as this is still under development. In October 2012, the FSA announced that the implementation date for Solvency II will likely be deferred until at least 1 January 2016.

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 £40 million (30 June 2012: £56 million; 31 December 2012: £52 million).

For other business the cost would be £118 million (30 June 2012: £121 million; 31 December 2012: £127 million). This equates to an equivalent average cost of capital charge of 1.5% (30 June 2012: 0.9%; 31 December 2012: 1.5%). 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-profit funds.

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

e) New business
The MCEV places a value on the profits expected to be earned on annuities arising from policies vesting with guaranteed annuity terms. 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 and policyholder responses to the varying external economic conditions simulated by the economic scenario generators. Policyholder response has been modelled based on historical experience. Management actions have been set in accordance with each life company's Principles and Practices of Financial Management.

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

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

During 2012, the Group amended its MCEV policy for recognising contributions to pension schemes in an IFRS surplus position. Prior to 2012, these contributions were recognised in 'Group costs'. These contributions are now recognised in other comprehensive income along with actuarial gains and losses on Group schemes that are in an IFRS deficit, so that these non-operating items are treated consistently.

The 30 June 2012 comparatives have been restated in this regard. The impact of the restatement for the half year ended 30 June 2012 is to reduce 'Group costs' by £15 million from £29 million to £14 million, to increase 'Tax on operating earnings' by £4 million from £50 million to £54 million and other comprehensive income reduces by £11 million. There is no net impact on the closing MCEV at 30 June 2012.

2. Components of the MCEV of covered business

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year ended 31 December 2012 £m
Net worth	**603**	1,369	886
PVFP	**2,397**	2,594	2,450
TVFOG	**(41)**	(78)	(46)
COC	**(16)**	(48)	(27)
Total VIF	**2,340**	2,468	2,377
	2,943	3,837	3,263

The net worth of covered business of £603 million at 30 June 2013 consists of £406 million of free surplus in excess of required capital (30 June 2012: £477 million; 31 December 2012: £514 million).

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

	Half year ended 30 June 2013		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2013	**886**	**2,377**	**3,263**
New business value	**7**	**3**	**10**
Expected existing business contribution (reference rate)[1]	**14**	**27**	**41**
Expected existing business contribution (in excess of reference rate)[2]	**1**	**20**	**21**
Transfer from VIF to net worth	**83**	**(83)**	**–**
Experience variances	**(6)**	**32**	**26**
Assumption changes	**15**	**5**	**20**
Other operating variances	**9**	**–**	**9**
Life MCEV operating earnings	**123**	**4**	**127**
Economic variances	**8**	**(31)**	**(23)**
Other non-operating variances	**(7)**	**5**	**(2)**
Total Life MCEV earnings	**124**	**(22)**	**102**
Capital and dividend flows	**(407)**	**(15)**	**(422)**
Life MCEV at 30 June 2013	**603**	**2,340**	**2,943**

1 Expected existing business contribution (reference rate) represents the expected return on the opening MCEV at the long-term risk-free rate of 2.42% (HY12: 2.58%).

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

	Half year ended 30 June 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)	18	34	52
Expected existing business contribution (in excess of reference rate)	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

	Year ended 31 December 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	10	10	20
Expected existing business contribution (reference rate)	36	67	103
Expected existing business contribution (in excess of reference rate)	36	45	81
Transfer from VIF to net worth	198	(198)	–
Experience variances	40	(27)	13
Assumption changes	(23)	(14)	(37)
Other operating variances	66	26	92
Life MCEV operating earnings	363	(91)	272
Economic variances	(66)	84	18
Other non-operating variances	211	(181)	30
Total Life MCEV earnings	508	(188)	320
Capital and dividend flows	(797)	(64)	(861)
Life MCEV at 31 December 2012	886	2,377	3,263

4. New business

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

	Premium £m	**MCEV £m**	**MCEV/ Premium %**
Half year ended 30 June 2013	**160**	**10**	**6%**
Half year ended 30 June 2012	161	9	6%
Year ended 31 December 2012	414	20	5%

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.

Present value of future profits (PVFP)	Years 1–5 £m	6–10 £m	11–15 £m	16–20 £m	20+ £m	Total
30 June 2013	**1,086**	**577**	**341**	**213**	**180**	**2,397**
30 June 2012	1,039	638	407	257	253	2,594
31 December 2012	1,058	596	369	231	196	2,450

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

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

	30 June 2013		30 June 2012		31 December 2012	
Term	**Gilt yield +10bps**	**Swap yield**	Gilt yield +10bps	Swap yield	Gilt yield +10bps	Swap yield
1 year	**0.33%**	**0.59%**	0.34%	0.79%	0.32%	0.57%
5 years	**1.50%**	**1.57%**	0.95%	1.28%	1.01%	1.04%
10 years	**2.75%**	**2.65%**	1.98%	2.15%	1.99%	1.92%
15 years	**3.40%**	**3.17%**	2.68%	2.69%	2.70%	2.58%
20 years	**3.71%**	**3.42%**	3.13%	2.97%	3.18%	2.96%

Had the Group used the swap rate curve as set out in the CFO Forum principles, the MCEV would have been £168 million lower (30 June 2012: £30 million lower; 31 December 2012: £168 million lower).

(b) Liquidity premiums

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

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

	30 June 2013	30 June 2012	31 December 2012
Additional yield over risk-free rates	**0.51%**	1.03%	0.60%

Inflation

For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index ('RPI') as at 30 June 2013 was taken from the implied inflation curve at a term appropriate to the liabilities. The rate of increase in UK National Average Earnings inflation is assumed to be RPI plus 100 basis points (30 June 2012: RPI plus 100 basis points; 31 December 2012: 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 30 June 2013. 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 June 2013 Swap term (years)						
5	**24.0%**	**18.6%**	**17.0%**	**16.5%**	**16.8%**	**16.3%**
10	**21.3%**	**17.8%**	**16.3%**	**15.9%**	**15.8%**	**15.4%**
20	**19.4%**	**17.0%**	**15.4%**	**14.6%**	**14.5%**	**14.0%**
30	**18.7%**	**16.4%**	**14.7%**	**13.8%**	**13.4%**	**12.7%**

	Option term (years)					
Interest rate volatility	5	10	15	20	25	30
30 June 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
31 December 2012 Swap term (years)						
5	27.1%	18.3%	16.0%	15.5%	15.9%	15.3%
10	22.7%	17.1%	15.2%	14.8%	14.9%	14.5%
20	19.4%	16.0%	14.2%	13.4%	13.5%	13.4%
30	18.4%	15.3%	13.5%	12.8%	12.6%	12.3%

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 June 2013	**21.7%**	**25.0%**	**25.7%**	**26.4%**	**27.2%**	**28.0%**
30 June 2012	25.8%	27.2%	27.8%	28.0%	28.2%	28.3%
31 December 2012	23.4%	26.3%	27.6%	28.3%	28.7%	29.0%

Best estimate levels of volatility are assumed for directly held property. The model implied volatility for 30 June 2013 is 15% (2012: 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.

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 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
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 management service companies, adjusted to allow for additional costs incurred directly by the life companies, including, for example, regulatory fees and one-time expenses.

The life companies' projected investment expenses are based on the fees agreed with 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 2013 includes Perpetual Reset Capital Securities with a principal outstanding of £425 million (2012: £425 million) and subordinated debt with a face value of £200 million (2012: £200 million). 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 without adjustment for internal holdings in the Perpetual Reset Capital Securities and the Pearl facility.

	Half year ended 30 June 2013		Half year ended 30 June 2012		Year ended 31 December 2012	
	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	**430**	**344**	429	247	444	286
Phoenix Life Limited subordinated debt	**204**	**187**	204	144	211	173

Unlisted debt has been included at face value.

	Half year ended 30 June 2013 Face value £m	Half year ended 30 June 2012 Face value £m	Year ended 31 December 2012 Face value £m
Unlisted debt			
Pearl and Impala facilities	**1,773**	2,369	2,307
Royal London PIK notes and facility	**119**	114	116

7. Sensitivity to assumptions

The table below summarises the key sensitivities of the MCEV of covered business at 30 June 2013.

	30 June 2013 Life MCEV £m	31 December 2012 Life MCEV £m
(1) Base	**2,943**	3,263
(2) 1% decrease in risk-free rates	**40**	91
(3) 1% increase in risk-free rates	**(45)**	(95)
(4) 10% decrease in equity market values	**(63)**	(70)
(5) 10% increase in equity market values	**60**	69
(6) 10% decrease in property market values	**(44)**	(48)
(7) 10% increase in property market values	**44**	47
(8) 100bps increase in credit spreads[1]	**(139)**	(150)
(9) 100bps decrease in credit spreads[1]	**146**	175
(10) 25% increase in equity/property implied volatilities	**(15)**	(9)
(11) 25% increase in swaption implied volatilities	**(4)**	(1)
(12) 25% decrease in lapse rates and paid-up rates	**(32)**	(38)
(13) 5% decrease in annuitant mortality	**(130)**	(148)
(14) 5% decrease in non-annuitant mortality	**28**	29
(15) Required capital equal to the minimum regulatory capital[2]	**7**	15

1 25bps is assumed to relate to default risk.

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

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

Additional information

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Shareholder information

Annual General Meeting

Our Annual General Meeting was held on 2 May 2013.

The voting results for our 2013 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 2013

Announcement of unaudited six months' interim results	22 August 2013
Announcement of third quarter interim management statement	25 October 2013

2013 interim dividend

Ex-dividend date	4 September 2013
Record date	6 September 2013
Interim 2013 dividend payment date	3 October 2013

2013 annual results

Our financial results for the year ended 31 December 2013 will be announced on 26 March 2014.

Forward-looking statements

The 2013 Interim 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 planned 'ICA+' regime and ultimate transition to 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
- 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 2013 for the half year ended 30 June 2013.

The Group undertakes no obligation to update any of the forward-looking statements contained within the Interim Report 2013 for the half year ended 30 June 2013 or any other forward-looking statements it may make.

The Interim Report 2013 for the half year ended 30 June 2013 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 2013 for the half year ended 30 June 2013 is, or should be construed as a profit forecast.