PHOENIX GROUP HOLDINGS

INTERIM REPORT 2010
FOR THE HALF YEAR ENDED 30 JUNE 2010

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Press release

07:00 A.M. Friday 27 August 2010

Phoenix Group Holdings
Interim results for the half year ended 30 June 2010

PHOENIX REPORTS STRONG FIRST HALF RESULTS AND SETS £725M CASH TARGET FOR YEAR END

Phoenix Group Holdings released strong first half results today, and said that full year cash inflows were likely to be at the top of its previous target range of £625 - £725m. Embedded value was up 7% at almost £2bn. Having successfully completed its Premium Listing on the LSE in July, Phoenix also said that it expects to enter the FTSE 250 Index in September.

Financial Highlights

- Strong first half cash inflows to the Holding Companies of £335m
- Target of £725m for cash flows in 2010, including £225m of management actions, at top of previous range
- Impressive growth in Group MCEV, up 7% to £1,962m including £116m of management actions
- Robust IGD capital surplus estimated at £1.3bn, £0.4bn in excess of regulatory requirements[2]
- Group IFRS operating profit of £176m, up £146m on the pro forma comparative period
- Assets under management of £69bn, up 3% since 31 December 2009, £800m of net new third party business
- Ignis Asset Management IFRS operating profit of £22m, up 38 percent on the pro forma comparative period
- Proposed interim dividend of 21 pence[3]

Corporate Highlights

- Achieved a Premium Listing on the London Stock Exchange on 5 July 2010, with expected inclusion in the FTSE 250 index in September 2010
- Significant simplification of the capital structure
- Successful conclusion to Tier 1 bondholder negotiations and resumption of coupon payment
- Continued focus on fund mergers. The National Provident Life Limited restructure was completed in Q1 2010
- Successful consolidation of the operations of Ignis, providing an enhanced platform for future growth
- Further strengthening of management and corporate governance
- Submitted the Solvency II pre-application process qualifying criteria template to the FSA in July 2010, demonstrating readiness to join the pre-application process for Solvency II internal model approval

Commenting on the results, Group Chief Executive Jonathan Moss said:

> "This has been a pivotal period for us, completing many key corporate objectives including the Premium Listing on the London Stock Exchange and a significantly simplified capital structure. At the same time we have reported a strong operational performance and continued to deliver on our financial targets in terms of cash flow, embedded value and capital.
>
> "We are now well placed to deliver on both our corporate and financial objectives for the remainder of 2010 and beyond, including simplification of our banking facilities and further fund mergers, all underpinned by continued strong and highly predictable cash flow generation. This will provide a sound foundation for pursuit of the Group's closed life fund consolidation strategy."

Presentation
There will be a presentation for analysts and investors on 27 August 2010 at 9.30am (BST) at:

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

A live webcast of the presentation will be available at
www.thephoenixgroup.com/investor-relations

Participants may also dial in as follows:
020 3059 5845 (UK)
+44 20 3059 5845 (outside UK)
Participant password: Results

Presentation materials will be available on www.thephoenixgroup.com/investor-relations before commencement of the presentation.

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Notes

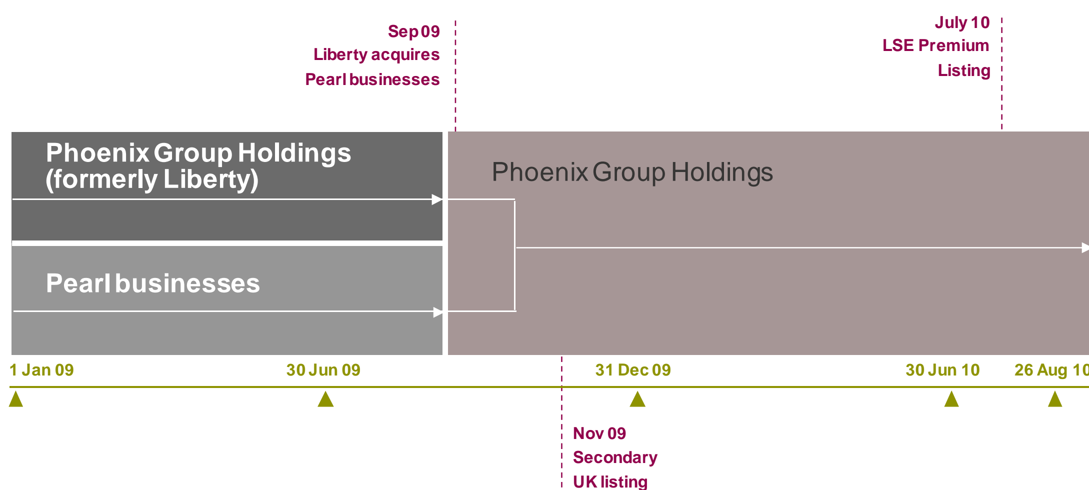
1. Phoenix Group Holdings, formerly Liberty Acquisition Holdings (International) Company ("Liberty"), was formed as a non-operating special purpose acquisition company in 2008. In the third quarter of 2009 it acquired a group of businesses that specialise in the consolidation and management of closed life and pension funds referred to as the Pearl businesses.

   The Interim Report for 2010 includes the consolidated results of Phoenix Group Holdings and its subsidiaries (the Pearl businesses) for the half years ended 30 June 2010 and 30 June 2009 and for the year ended 31 December 2009 presented in accordance with International Financial Reporting Standards ("IFRS"). The results of the Pearl businesses are included from 28 August 2009, the IFRS date of acquisition.

   To assist users and give shareholders a basis for comparison, the Directors have provided additional financial information on a pro forma basis. This information includes for the half year ended 30 June 2009 the Pearl businesses for the period from 1 January 2009 to 30 June 2009 in addition to the consolidated results of Phoenix Group Holdings from 1 January 2009 to 30 June 2009 and for the year ended 31 December 2009 the Pearl businesses from 1 January 2009 to 27 August 2009 in addition to the consolidated results of Phoenix Group Holdings from 1 January 2009 to 31 December 2009.

   Pro forma information is separately referenced throughout the Interim Report and is predominantly located within the sections covering Performance and the Market Consistent Embedded Value ("MCEV") supplementary information.

   The following timeline details the key developments in the history of the Group since 2009.



2. Any references to IGD Group, IGD sensitivities, or IGD relate to the relevant calculation for Phoenix Life Holdings Limited, the ultimate EEA Insurance parent undertaking as at 30 June 2010.

3. The proposed interim dividend of 21 pence per share is subject to compliance with the processes set out in the Group's main credit facilities. The dividend represents 50 per cent of our stated annual dividend policy. We expect to revisit this policy should our dividend restriction be removed. The Company will be offering a scrip dividend alternative and details will be made available on the Group's website, www.thephoenixgroup.com.

4. This announcement in relation to Phoenix Group Holdings and its subsidiaries (the "Group") contains forward looking statements concerning future events. Those forward looking statements are based on the current information and assumptions of the Group's management concerning known and unknown risks and uncertainties. Forward looking statements do not relate to definite facts and are subject to risks and uncertainty. The actual results and financial condition of the Group may differ considerably as a result of risks and uncertainties relating to events and circumstances beyond the Group's control. This may include among other things, domestic and global economic and business conditions; market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, and lapse rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency or accounting standards; and the impact of changes in tax and other legislation and regulations in the jurisdictions in which members of the Group operate. The Group cautions that expectations are only valid on the specified dates, and accepts no responsibility for the revision or updating of any information contained in this announcement.

OVERVIEW

Chairman's report

The first half of 2010 has been a period of significant progress for Phoenix Group Holdings, culminating in our successful Premium Listing on the London Stock Exchange ("LSE") on 5 July 2010. Since the beginning of the year, we have simplified our capital structure, strengthened our Board and management team, resolved a number of outstanding legacy issues, and delivered strong cash generation in difficult markets, demonstrating the underlying strength of our business model.

A Premium Listing on the LSE is central to the consolidation strategy of the Group. Its achievement represents a major step forward and is the result of many months of intense activity. Preparations for the Premium Listing have been demanding and high on the corporate agenda, but at the same time our life and asset management businesses have also been extremely busy, improving customer service, focusing on the enhancement of policyholder returns and growing third party assets under management.

As Jonathan Moss reports in more detail in his Group Chief Executive's report, Phoenix continues to generate high levels of cash. Recurring cash flows have arisen as projected and management actions are well on course to deliver our £225 million accelerated cash flow target for 2010.

It is the cash generative nature of our business model that is its core attraction. However, for shareholders to enjoy the benefits of those cash flows, we need to address the restrictions which are currently placed on our dividend as a stipulation of our borrowing facilities with our lenders. Restructuring these borrowing arrangements is, therefore, a high priority, with the objectives of lifting the dividend restriction and securing the level and structure of debt that will support our longer-term growth ambitions. While this may well involve some debt repayment, the absence of new business risk and the predictability of our cash flows can accommodate a higher level of leverage than would be the case for a life company that continues to write new business.

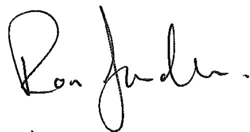
Phoenix enjoys a position as the largest specialist consolidator of closed life funds in the UK. This carries with it great responsibility. We manage almost £69 billion of assets and have six and a half million policyholders, and we apply considerable actuarial, investment and operational expertise to make sure these investments are secure and that opportunities to safely enhance returns are identified wherever possible.

To be the leading specialist in the closed life fund market is also a position of great opportunity. There is a large and growing legacy life sector in the UK that is now effectively closed to new business, with significant amounts of regulatory capital being deployed to support products that are no longer actively marketed to new customers. The closed life sector needs to be safely decommissioned. It is not in the interests of policyholders for all these legacy funds to be run-off in a series of isolated silos. Nor is this an attractive outlook for the operators of these funds, given the impact of impending new regulation, including Solvency II, and the lack of consumer demand for traditional with-profits and unit-linked products. This will undoubtedly provide opportunities for the Group. Our scale, our low cost operating platform and our experience in the acquisition and consolidation of closed life funds can be deployed to provide better outcomes for millions more policyholders and, at the same time, to enhance value for our shareholders.

I have been pleased to welcome four new independent Directors to the Board of Phoenix Group Holdings: these appointments have broadened the knowledge and expertise available to the Board, which now meets fully the independence recommendations of the Combined Code. Jonathan Yates has been appointed to the Board as Group Finance Director and, in addition, we have strengthened significantly our Group Finance function with several senior appointments.

The UK savings market stands to benefit from a consolidator that can provide better outcomes for policyholders by ensuring the safe and efficient run-off of millions of policies and many billions of pounds of consumers' savings in traditional life assurance products. Phoenix is already the UK's largest specialist consolidator of closed life funds and the Group has made enormous strides in the past six months towards being able deliver the further consolidation that the UK savings market needs.

The business is performing well, and as these results show, is generating strong cash flows from its operating businesses. Looking ahead to the remainder of the financial year, I am confident that we will deliver full year cash flows at the top of our £625 million to £725 million target range for combined recurring and accelerated cash flows. We have achieved a great deal in the first half of the year, which would not have been possible without the continuing dedication and commitment of our staff, to whom I offer my thanks.



Ron Sandler
Chairman
26 August 2010

Group Chief Executive's report

Introduction

I am delighted to present the first interim report for Phoenix Group Holdings since its acquisition of the Pearl businesses in September 2009. Our results position us well to achieve our targets for the remainder of 2010 and demonstrate the continued strength of our business model.

The Group has made considerable progress in implementing its strategies over the last six months. During that period, we have maintained a robust capital position, with an IGD surplus of £1.3 billion, and continued with our prudent approach to risk management, ensuring the Group remains highly cash generative and profitable whilst also protecting policyholder returns.

Furthermore, we are well advanced with plans to achieve the management actions that will enhance the Group's embedded value and accelerate our cash flows.

Key achievements

The first half of 2010 has seen excellent progress across a range of Group initiatives, culminating with our successful Premium Listing on the LSE in July 2010. These achievements have been the result of the continued hard work and great commitment of our employees across all areas of our business and I thank them for the effort and energy they have shown.

I would particularly like to draw attention to the following achievements:

- Produced an excellent performance in the first half of 2010, generating £335 million of Holding Companies' cash inflows, IFRS operating profit of £176 million and a Group MCEV of £1,962 million, despite market conditions. This puts us firmly on track to achieve towards the top end of our annual target of £400 to £500 million recurring cash generation. We are also on track to accelerate £225 million additional cash inflows and deliver £145 million of incremental embedded value through management actions during 2010
- Achieved a Premium Listing of the Company's shares on the LSE. We expect inclusion in the FTSE 250 index in September 2010 and this, together with the Premium Listing, is an important stepping stone to attract a broader shareholder base supportive of the Group's strategy as the leading specialist consolidator of UK closed life funds
- Reduced our dilutive instruments from over 75 percent of the issued share capital at 2 September 2009 to below 20 percent, effective 5 July 2010, in order to qualify for a Premium Listing. We delivered this by successfully exchanging approximately three quarters of the public warrants, all the insider warrants and the majority of contingent rights for new shares
- Concluded negotiations with our Tier 1 bondholders, endorsed by 99.9 percent of votes cast in favour of the proposed amendments to the Tier 1 Notes ("the Notes", also referred to in this document as Perpetual Reset Capital Securities). We have also now resumed payment of coupons, with the remaining deferred coupon scheduled for payment by the end of 2010
- Completed the National Provident Life Limited restructure in the first quarter of 2010, an important step in the movement towards a single life company structure
- Consolidated the operations of our asset management business, providing a platform for future growth.

Group performance

The operating performance of our two core segments is as follows:

<u>Phoenix Life</u>

Phoenix Life manages the closed life business of the Group and has produced an excellent first half performance, generating MCEV operating earnings of £219 million after tax, an increase of £235 million on the pro forma comparative period (an increase of £176 million on a consistent basis, using a longer-term rate of return in both half year periods). The business is also progressing well with its planned site consolidation and funds merger activities.

Mike Merrick, Chief Executive of Phoenix Life, and his management team are also well advanced in achieving their operational targets, including working with the wider Group in preparation for the regulatory changes required as a result of Solvency II.

<u>Ignis Asset Management</u>

Ignis provides asset management services to the Group's life companies as well as third party clients. Ignis has continued to build upon its performance in 2009, generating an IFRS operating profit of £22 million, a 38 percent

increase on the pro forma comparative period. Assets under management increased to £69 billion, including £0.8 billion of net new third party business and £2.8 billion of assets that have been brought in-house from a third party asset manager.

During the first quarter, Ignis concluded the corporate integration of the two asset management companies, Axial and Ignis under the Ignis brand, including a streamlining of the executive and the management structure to support a single business offering. Following the successful integration, Chris Samuel, Chief Executive of Ignis Asset Management, has further strengthened his management team with the appointments of a new Chief Investment Officer, Chris Fellingham and Chief Operating Officer, Tim Roberts. Ignis also remains focused on growing its third party franchise business with positive net inflows demonstrating progress on this front.

Our goals and progress

Our 2009 Annual Report and Accounts outlined our business goals and as a Group we have remained focused on executing strategies to achieve them. We have made significant progress over the last six months and we are confident in our ability to achieve our financial and operational targets for 2010.

- **Maximise business performance and value**

  Progress: Our Holding Companies' cash inflows demonstrate the predictable nature of our long-term cash flows and we have continued to take action to accelerate cash flows from Phoenix Life, including further fund mergers. Ignis has seen profit growth and will continue to focus on internalising assets under management as well as building its third party customer base.

- **Improve customer outcomes**

  Progress: Improvements to processing times for customers wishing to take an open market option are being delivered as a result of our subscription to the industry led 'Origo' initiative and customer research supports general satisfaction in relation to telephone contact. In the latter part of 2010 we will also be working to provide an opportunity for certain customers to bring forward the payment of benefits whilst enabling us to reduce costs, the benefit of which will flow through to the with-profits fund. A standard approach to estate distribution for the life companies is being developed this year which may provide additional benefits to policyholders.

- **Sustain a robust and scaleable business model**

  Progress: We have simplified the Group's capital structure through our agreements with the contingent right holders immediately prior to our Premium Listing on the LSE, and we believe this positions us well to, in due course, secure new sources of funding. We will continue to work with our lending banks during the second half of 2010 to simplify our financing structure. Operationally, our Phoenix Life consolidation programme continues on track and our business outsource partners are also progressing well with their respective transformation programmes. In addition, the Group has significantly progressed its financial and operational risk management framework. The asset management business has also completed its integration and now operates under the Ignis brand. Integrated reporting and management information systems have been implemented by Ignis in the first half of the year.

- **Be a place where people want to work**

  Progress: Our mid year checkpoint for employee engagement has demonstrated a significant improvement in our overall engagement score and we are well on track to achieve our full year target of 70 percent. As well as achieving a significant uptake in our staff relocation programmes, we have also welcomed a number of new employees into the Group across Phoenix Life, Ignis Asset Management and the Corporate Office, demonstrating our ability to both attract and retain talent.

- **Build an industry-wide reputation**

  Progress: We are building trust by consistently delivering on the commitments we have made. We have significantly enhanced our investor relations and media relations capabilities, and together with the Premium Listing on the LSE and corporate re-branding initiatives, we have the foundations in place from which to further develop our reputation.

- **Pursue value-adding acquisitions**

  Progress: As the largest specialist closed life fund consolidator we are well placed to realise value from acquisitions and I believe we have all the necessary expertise within the Group to execute transactions and successfully integrate new funds.

Solvency II
Our Solvency II programme continues to develop and we achieved a key milestone in July when we completed our template containing qualifying criteria, setting out our readiness to join the FSA's pre-application process for Solvency II internal model approval. I am also encouraged by the fact that the assumptions used in the latest quantitative impact study (QIS5) are much closer than those previously suggested by QIS4 to those adopted in our existing internal models. We continue to recognise the benefits that Solvency II will bring to the insurance industry and believe that Phoenix Group will be well placed to take advantage of any changes in the marketplace that arise from the final framework.

Interim dividend
The Board has declared an interim dividend for the first 6 months of 2010 of 21 pence per share which will be paid on 15 October 2010, subject to compliance with the processes set out in Group's main credit facilities. The dividend represents 50 per cent of our stated annual dividend policy. We expect to revisit this policy should our dividend restriction be removed. The Group is pleased to provide this payment in Sterling as opposed to Euros, and we are also offering a scrip dividend option to our investors.

Outlook
This has been a pivotal period for us, completing many key corporate objectives and delivering a strong operational performance. Looking ahead, we are well placed to deliver on our full year financial targets in terms of cash flow, embedded value and capital. In addition we shall continue to focus on simplifying our banking facilities and additional fund restructuring. This will provide a sound foundation for pursuit of the Group's closed life fund consolidation strategy.

Jonathan Moss
Group Chief Executive
26 August 2010

GROUP PERFORMANCE

Key performance indicators

Holding Companies' cash inflows	£335 million (Pro forma FY09: £716 million)

Recurring cash generation has remained strong in the period at £305 million and for the full year is now expected to be at the top of our target of £400 million to £500 million per annum range, before management actions.

Our management actions have generated cash flows of £30m in the first half of 2010. We are confident that we are on track to deliver our full year accelerated cash flow target from management actions of £225 million as our well progressed activities complete.

IGD capital surplus (estimated)	£1.3 billion (31 December 2009: £1.2 billion)

The estimated IGD surplus remains robust with capital generation items of £0.2 billion offsetting dividend and debt financing costs and repayments of £0.1 billion in the first half of 2010. This represents a coverage percentage of 135 percent and headroom of £0.4 billion over our ongoing target.

Group MCEV	£1,962 million (31 December 2009: £1,827 million)

Group MCEV of £1,962 million, an increase of £135 million on the 2009 year end, reflects the benefit of management actions and strong investment returns despite continued market volatility. We have delivered £116 million incremental embedded value growth in 2010 and are on track to achieve our remaining target for 2010 of £29 million.

Group IFRS operating profit	£176 million (Pro forma HY09: £30 million)

Strong Group IFRS operating profit of £176 million, which represents an increase of £146 million on the pro forma comparative period with both our operating segments reporting good results.

Interim dividend per share	21 pence per share

Proposed interim dividend per share of 21 pence*. A scrip dividend option will be available to shareholders.

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

Assets under management	£68.6 billion (31 December 2009: £66.9 billion)
IFRS asset management operating profit	£22 million (Pro forma HY09: £16 million)

The increase in assets under management includes £2.8 billion of assets brought in-house from a third party asset manager. The underlying position was stable despite market uncertainty and the run-off of the internal funds managed by Ignis.

IFRS asset management operating profit improved by £6 million on the pro forma comparative period to £22 million.

Pro forma information

Phoenix Group Holdings was formed as a non-operating special purpose acquisition company in 2008. In the third quarter of 2009 it acquired a group of businesses that specialise in the consolidation and management of closed life and pension funds referred to as the Pearl businesses.

The Interim Report for 2010 includes the consolidated results of Phoenix Group Holdings and its subsidiaries (the Pearl businesses) for the half years ended 30 June 2010 and 30 June 2009 and for the year ended 31 December 2009 presented in accordance with IFRS. The results of the Pearl businesses are included from 28 August 2009, the IFRS date of acquisition.

To assist users and give shareholders a basis for future comparison, the Directors have provided additional financial information on a pro forma basis. This information includes for the half year ended 30 June 2009 the Pearl businesses for the period from 1 January 2009 to 30 June 2009 in addition to the consolidated results of Phoenix Group Holdings from 1 January 2009 to 30 June 2009 and for the year ended 31 December 2009 the Pearl businesses from 1 January 2009 to 27 August 2009 in addition to the consolidated results of Phoenix Group Holdings from 1 January 2009 to 31 December 2009.

Pro forma information is separately referenced throughout the Interim Report.

Cash generation

As outlined in our 2009 Annual Report and Accounts, the Group's cash flows are generated from the interest earned on capital, the release of excess capital as the life funds run down, policyholder charges and management fees earned on assets under management. The Group's closed life funds provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to owners and for repayment of outstanding debt. Although investment returns are less predictable some of this risk is borne by policyholders.

Holding Companies' cash flows

The statement of cash flows prepared in accordance with IFRS combines cash flows relating to policyholders and cash flows relating to owners, but the practical management of cash within the Group maintains a distinction between the two, as well as taking into account regulatory and other restrictions on availability and transferability of capital. For this reason, the following analysis of cash flows focuses on the Holding Companies' cash flows* for the half year ended 30 June 2010, which reflect cash flows relating only to owners and which are, therefore, more representative of the cash that could potentially be distributed to the Group's owners, or used for the repayment of debt. This cash flow reflects the cash paid by the operating subsidiaries to the Group's Holding Companies, as well as the uses of the cash receipts.

Holding Companies' cash inflows from the operating subsidiaries for the half year ended 30 June 2010 were £335 million (pro forma half year ended 30 June 2009: £252 million). We are on track to deliver annual recurring cash flows from our operating subsidiaries at the top of our stated £400 million to £500 million range as well as accelerated cash flows of £225 million from management actions which are expected to complete mainly in the second half of 2010. Accelerated cash flows will be achieved through outsourcer and cost management, tax optimisation and fund restructurings.

* The cash flow analysis was previously presented for the UK Holding Companies under Phoenix Group Holdings, being Phoenix Life Holdings Limited, Phoenix Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Group Holdings (No. 1) Limited, PGH (LCA) Limited, PGH (LCB) Limited, PGH (LC1) Limited, PGH (LC2) Limited and Pearl Life Holdings Limited. For 2010 Phoenix Group Holdings is included in the cash flow analysis, which now refers to Holding Companies, and prior periods have been restated to reflect this.

Holding Companies' cash flows	**Half year ended 30 June 2010 £m**	Half year ended 30 June 2009 pro forma[1] £m	Year ended 31 December 2009 pro forma[1] £m
Cash and cash equivalents at start of period	**202**	86	86
Cash receipts			
Cash receipts from life companies			
Recurring	**296**	219	385
Management actions	**30**	–	275
	326	219	660
Cash receipts from Ignis Asset Management	**9**	8	21
Cash receipts from Management Services	**–**	25	35
Total receipts of cash[2]	**335**	252	716
Uses of cash			
Recurring cash outflows			
Pension scheme contributions[3]	**3**	5	33
Other operating expenses	**15**	7	27
Debt interest	**76**	–	102
Shareholder dividend	**20**	–	–
Debt prepayment	**22**	–	–
Total recurring outflows	**136**	12	162
Non-recurring cash outflows			
IT and other business transformation costs	**25**	41	67
Transaction and restructuring costs	**28**	11	30
Settlement with Royal London	**–**	–	240
Debt interest	**6**	–	72
Pension scheme contributions	**–**	–	25
Other	**–**	8	4
Total non-recurring outflows	**59**	60	438
Total uses of cash	**195**	72	600
Cash and cash equivalents at end of period[4]	**342**	266	202

1 Restated to include the cash flows of Phoenix Group Holdings
2 Amounts received by Holding Companies in respect of Group relief are included within cash receipts from the relevant subsidiaries
3 Certain contributions are made directly by the service companies to the pension schemes
4 Closing balance at 30 June 2010 includes required prudential cash buffer of £150 million

Cash receipts

£326 million of cash was remitted by Phoenix Life from the emergence of surplus and regulatory capital releases including £30 million of cash generated through management actions from the resolution of legacy tax issues. Cash is typically distributed from the life companies twice a year following the full actuarial valuations at 31 December and 30 June. The half year 2010 cash flows include the receipts from the life companies following the 31 December 2009 valuation.

The table below analyses the movement in free surplus of the life companies.

Free surplus movement	Half year ended 30 June 2010 £m
Phoenix Life free surplus at 1 January 2010[1]	**408**
Cash distributed to Holding Companies	**(326)**
Phoenix Life IFRS operating profit[2]	**175**
Phoenix Life IFRS investment variances and non-recurring items	**160**
Movements in capital requirement and capital policy	**160**
Valuation differences and other[3]	**(43)**
Phoenix Life free surplus at 30 June 2010[4]	**534**

1 Free surplus at 1 January 2010 funded the 2010 half year cash release
2 Excluding management services IFRS operating profit of £7 million for the half year ended 30 June 2010
3 Represents minor differences between IFRS valuation of assets and liabilities and valuation for capital purposes
4 Cash release in the second half of 2010 to be determined post 2010 capital policy review

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

Pension scheme contributions

The triennial valuation for the PGL Pension Scheme is nearing completion and the Group aims to agree additional contributions to the scheme with the scheme trustees in the second half of the year. It is expected that £37 million of the additional contributions will be recovered from the Phoenix Life with-profits funds in line with the indemnity provided in 2005. The triennial valuation for the Pearl Group Staff Pension Scheme is complete and no changes to the funding levels are expected.

Pension scheme contributions under existing agreements are mainly paid in the second half of the year and remain in line with the 2010 target of £33 million. Expected annual pension scheme contributions including the new funding arrangement will be confirmed in the second half of the year.

In line with many other employers who operate defined benefit schemes the Group has recently decided to undertake a formal review of the benefits of both the Pearl Group Staff Pension Scheme and the PGL Pension Scheme. This review, which we expect to complete shortly, will consider ways of mitigating the financial risk and volatility associated with funding these schemes going forward.

Other operating expenses

Other operating expenses include corporate staff costs and other corporate expenses.

Debt interest

The Holding Companies are targeting debt servicing cash outflows for 2010 of £102 million in recurring interest on bank debt and £27 million in recurring coupons on the Tier 1 Notes, post the restructuring of the Notes which included a reduction in face value of 15 percent. A £33 million coupon, based on the value of the Notes prior to restructuring, was paid by the Holding Companies in April 2010, with the remaining 2009 deferred coupon to be paid by the end of 2010. £6 million of the 2010 coupon paid has been disclosed as a non-recurring outflow for the half year ended 30 June 2010 to reflect the subsequent 15 percent reduction in the face value of the Notes and the purchase of notes from Royal London with a face value (pre discount) of £19 million.

Debt prepayment

A £22 million voluntary debt prepayment was made in respect of one of the Group's main credit facilities in the first half of 2010. Scheduled repayments of the Group's main facilities commence in 2011.

IT and other business transformation costs

The Group's Holding Companies incurred IT and other business transformation costs of £25 million in the first half of 2010, including costs associated with the Group's transformation programme with its outsourcers. Business transformation costs are expected to reduce going forward as the investment programmes complete.

The Group is investing in transforming its actuarial IT systems to meet the requirements of Solvency II, provide greater operational efficiencies and further enhance the quality and speed of financial reporting. The majority of payments for this project will be made by the operating businesses.

Transaction and restructuring costs

Transaction and restructuring costs include cash payments related to the Premium Listing and consent fees paid to the lending banks for various internal restructurings and corporate activity.

Target cash flows

The Group is targeting the generation of the following aggregate Holding Companies' cash inflows for the period from 2010 to 2014:

Sources of future cash flows	1 January 2010 to 31 December 2014 £bn
Emergence of surplus	1.1
Release of capital	1.0
Recurring cash receipts from life companies	2.1
Management actions to 2011[1]	0.3
Other[2]	0.3
Holding Companies' cash inflows	**2.7**

1 No management actions assumed beyond 2011
2 Includes emergence of surplus of Ignis Asset Management and Management Services

The resilience of these forecast cash flows is demonstrated by the following stress testing:

Stress testing	£bn
Base case 5 year projections	2.7
20% fall in equity markets	2.5
15% fall in property values	2.6
75 bps increase in yields	2.7
Credit spreads widening[1]	2.4
Combined stress of 25 percent fall in equity markets, 20 percent fall in property, 75 basis points increase in yields and credit spreads widening[1]	2.0

1 10 year term: AAA – 48bps, AA – 77bps, A – 108bps, BBB – 162bps

One off shocks would be expected to lead to a deferral of cash emergence rather than a permanent diminution.

MCEV

Group MCEV operating earnings*

The Group generated MCEV operating earnings after tax of £216 million for the half year ended 30 June 2010, an increase of £238 million on the pro forma comparative period (an increase of £179 million on a consistent basis, using a longer-term rate of return in both half year periods).

The Board is pleased to report that embedded value performance was strong in difficult market conditions reflecting the resilience of Phoenix Life in the first half of the year and the realisation of value from management actions. We have delivered growth in embedded value from management actions of £116 million and are therefore well on track to meet our 2010 target of £145 million incremental embedded value.

MCEV operating earnings/(loss)	Half year ended 30 June 2010 £m	Half year ended 30 June 2009 pro forma £m
Life MCEV operating earnings/(loss)[1]	**304**	(22)
Management services operating profit/(loss)	**7**	(7)
Ignis Asset Management operating profit	**22**	16
Corporate costs	**(33)**	(18)
Group MCEV operating earnings/(loss) before tax	**300**	(31)
Tax (charge)/credit on operating earnings/loss	**(84)**	9
Group MCEV operating earnings/(loss) after tax[2]	**216**	(22)

1 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 £304 million (half year ended 30 June 2009: pro forma operating loss of £22 million) are therefore calculated as £219 million operating earnings (pro forma half year ended 30 June 2009: £16 million operating loss) grossed up for tax at 28 percent (half year ended 30 June 2009: 28 percent)

2 The Group has moved to calculating the expected contribution on existing business using longer term expectations of investment returns. The pro forma 'Group MCEV operating earnings/(loss) after tax' would have been positive £37 million for the half year ended 30 June 2009 if it had been calculated using longer term rates of return

* The Phoenix Group Market Consistent Embedded Value methodology (referred to herein and in the supplementary information as MCEV) is in accordance with the MCEV principles and guidance published by the CFO Forum in October 2009, except that:

- risk-free rates have been defined as the annually compounded UK government nominal spot curve plus 10 basis points rather than as a swap rate curve
- no allowance for the costs of non-hedgeable risk 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 the costs of residual non-hedgeable risk is £201 million (31 December 2009: £234 million)
- the value of the asset management and management service companies are calculated on an IFRS net assets basis.

Covered business includes all long-term insurance business written by the Group, but excludes the asset management and management service companies.

Life MCEV operating earnings/(loss) after tax

Other than vesting annuities, 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/(loss) after tax	**Half year ended 30 June 2010 £m**	Half year ended 30 June 2009 pro forma £m
Expected existing business contribution	**150**	47
New business value	**11**	11
Non-economic experience variances and assumption changes		
Experience variances	**74**	(83)
Assumption changes	**(12)**	(6)
Other operating variances	**(4)**	15
Total non-economic experience variances and assumption changes	**58**	(74)
Life MCEV operating earnings/(loss) after tax	**219**	(16)

Expected existing business contribution

The Group uses long-term investment returns in calculating the expected existing business contribution. In 2009 the expected contribution was calculated using a 1 year risk-free rate plus the Group's long-term expectations of excess investment returns on equities, properties and bonds. From 2010, 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 has moved to calculating the expected contribution on existing business using a long-term risk-free rate (15 year gilt rate plus 10 basis points) plus long-term expectations of excess investment returns.

This change in assumption only affects the analysis of movement and does not impact the total calculated embedded value. The pro forma expected existing business contribution at 30 June 2009 would have been £106 million if it had been calculated using expectations of longer term rates of return but economic variances within the analysis of Group MCEV earnings would have been reduced by the same amount.

The expected contribution of existing business for the half year ended 30 June 2010 of £150 million after tax is £44 million higher than the comparative period on a consistent basis (half year ended 30 June 2009 pro forma: £106 million using a longer-term rate of return) largely due to the increase in the long-term risk-free rate and the higher opening MCEV.

New business value

New business profits generated from vesting annuities during the 2010 half year were flat at £11 million after tax (half year ended 30 June 2009 pro forma: £11 million). 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 is 5 percent after tax (half year ended 30 June 2009 pro forma: 5 percent) and represents the ratio of the net of tax new business value to the amount received as new single premiums.

Non-economic experience variances and assumption changes

The life divisions' non-economic experience variances and assumption changes increased the MCEV by £58 million after tax for the half year ending 30 June 2010, the main driver being experience variances. Positive experience variances largely related to a benefit of £37 million from converting intra-group debt into listed Eurobonds, which removes the burden of UK withholding tax, and other tax optimisation benefits. There were also benefits realised from back book management including data cleansing projects. Unfavourable experience variances for the half year ended 30 June 2009 were driven by higher cost of capital charges following increases in capital resource requirements and changes to capital policy in 2009.

Management services

The operating profit for management services comprises income from the life companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs.

Ignis Asset Management

Ignis recorded an operating profit before tax of £22 million for the half year ended 30 June 2010, an increase of 38 percent on the pro forma comparative period.

Ignis Asset Management operating profit	**Half year ended 30 June 2010 £m**	Half year ended 30 June 2009 pro forma £m
Retail revenue	**8**	7
Institutional and international revenue[1]	**7**	9
Life fund revenue[2]	**48**	38
Other income	**1**	1
Total revenues[3]	**64**	55
Staff costs	**(27)**	(24)
Other operating expenses	**(15)**	(15)
Total expenses[3]	**(42)**	(39)
Ignis Asset Management operating profit before tax	**22**	16

1 Includes performance fees of £nil (half year ended 30 June 2009 pro forma: £3 million)
2 Includes performance fees of £10 million (half year ended 30 June 2009 pro forma: £nil)
3 Revenues and expenses are stated net of rebates from collective investment schemes

Ignis has delivered significantly higher operating profits with the business benefiting from a combination of improved bond and real estate markets, third party net inflows of £0.8 billion and performance fees from the life companies.

Assets under management development	Life companies £bn	Third party £bn	Group pension schemes £bn	Total £bn
Opening assets under management at 31 December 2009	**60.1**	**4.1**	**2.7**	**66.9**
Inflows	**–**	**1.3**	**–**	**1.3**
Outflows	**(2.7)**	**(0.5)**	**(0.9)**	**(4.1)**
Market movements	**1.8**	**(0.2)**	**0.1**	**1.7**
Transfer from third party asset manager	**2.8**	**–**	**–**	**2.8**
Closing assets under management at 30 June 2010	**62.0**	**4.7**	**1.9**	**68.6**

Internal funds under management increased by £1.9 billion (3 percent) to £62 billion in the first half of the year as a transfer from a third party manager of £2.8 billion and positive market movements of £1.8 billion outweighed the run-off of the closed life business of £2.7 billion.

Ignis has continued with its programme of bringing in-house externally managed life company assets that were previously overseen by Ignis. In addition to the above mentioned transfer, £3.3 billion of assets previously managed by third parties and transferred to Ignis in 2009 are now being managed by Ignis on an active basis having formerly been passively managed.

Third-party net inflows were £0.8 billion in the period mainly reflecting strong sales of retail products and liquidity funds.

Corporate costs

The Group's business structure includes a Corporate Office that provides a coordination and oversight function. Corporate office costs and project spend amounted to £16 million before tax (half year ended 30 June 2009: £6 million). The increase in corporate office costs in 2010 reflects the additional ongoing costs associated with our Premium Listing on the LSE. The balance of the charge in both periods relates primarily to the pension schemes.

Group MCEV earnings

Group MCEV earnings are reconciled to the Group MCEV operating earnings, as follows:

	Half year ended 30 June 2010 £m	Half year ended 30 June 2009 pro forma £m	Adjustment to move to a longer term rate of return[1]	Half year ended 30 June 2009 on a consistent basis £m
Group MCEV operating earnings/(loss) after tax	**216**	(22)	59	37
Economic variances on covered business	**106**	(35)	(82)	(117)
Economic variances on non-covered business	**(14)**	(46)	-	(46)
Non-recurring items	**(22)**	(62)	-	(62)
Finance costs attributable to owners	**(81)**	(125)	-	(125)
Tax (charge)/credit on non-operating earnings/loss	**(13)**	14	23	37
Group MCEV earnings/(loss) after tax	**192**	(276)	**-**	(276)

1 The Group has moved to calculating the expected contribution on existing business using longer term expectations of investment returns. The pro forma 'Group MCEV operating earnings/(loss) after tax', 'Economic variances on covered business' and 'Tax (charge)/credit on non-operating earnings/loss' would have been positive £37 million, negative £117 million and positive £37 million respectively for the half year ended 30 June 2009 if the expected contribution had been calculated using longer term rates of return

Economic variances on covered business

Positive economic variances in the period of £106 million before tax reflect improvements in the property market, movements in risk-free rates and strong returns on investments in hedge funds offset by declines in the value of equities.

Economic variances on non-covered business

Negative economic variances on non-covered business of £14 million before tax largely relate to negative returns on interest rate swaps held in the holding companies. The half year ended 30 June 2009 was impacted by market value movements on the listed Tier 1 Notes issued by the Group's subsidiary Pearl Group Holdings (No. 1) Limited and Phoenix Group Holdings warrants, which reduced pro forma MCEV earnings by £52 million before tax and which had a nil impact in the 2010 half year.

Non-recurring items

Overall non-recurring items reduced embedded value by £22 million before tax and primarily include:

- Costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme with its outsourcers of £11 million (half year ended 30 June 2009 pro forma: £8 million)
- Premium Listing and other restructuring costs of £28 million (half year ended 30 June 2009 pro forma: £37 million of restructuring costs)
- Regulatory change and systems transformation costs of £8 million after tax (half year ended 30 June 2009 pro forma: £nil)
- A gain of £19 million after tax following the near finalisation of revised asset shares in the Phoenix & London Assurance with-profit fund as a result of a guaranteed annuity option compromise scheme last year which reduced longevity risk for the Group whilst providing policyholder benefit enhancements. This outweighs the overall charge of £12 million after tax recognised in the second half of 2009 which was based on estimated asset shares.

Finance costs attributable to owners

	Half year ended 30 June 2010 £m	Half year ended 30 June 2009 pro forma £m
Debt finance costs[1]	**48**	117
Tier 1 coupon	**33**	–
Other finance costs	**–**	8
Finance costs attributable to owners	**81**	125

1 Finance costs in respect of the Impala and Pearl facility agreements (and associated swap interest) and the Royal London Payments in Kind (PIK) notes and facility

As part of their acquisition by Phoenix Group Holdings, the Pearl businesses restructured the Pearl and Impala facilities and Royal London PIK notes and facility resulting in an overall reduction in external debt of £575 million. In addition, the remainder of the £2.9 billion of this external debt was also restructured and the terms amended.

Debt finance costs reduced by 59 percent on the pro forma comparative period as a result of the above restructuring and lower interest rates.

On 22 April 2010, the holders of the Tier 1 Notes agreed to a number of amendments to the Notes, including a 15 percent reduction in the face value of the Notes. Following these amendments, the Group settled in full the 2010 coupon on the Notes on 26 April 2010. Future coupon payments will be £27 million reflecting the 15 percent reduction in the face value of the Notes and the purchase of Notes from Royal London with a face value (pre discount) of £19 million.

Tax on non-operating earnings

Tax on non-operating earnings includes a charge of £33 million relating to economic variances and non-recurring items related to covered business (half year ended 30 June 2009 pro forma: a credit of £15 million).

Group MCEV

The Group MCEV increased by £135 million over the half year to £1,962 million at 30 June 2010 as shown below.

Movement in Group MCEV	**Half year ended 30 June 2010 £m**	Half year ended 30 June 2009 pro forma £m
Group MCEV at 1 January	**1,827**	1,044
Group MCEV earnings/(loss) after tax	**192**	(276)
Other comprehensive income		
Actuarial (losses)/gains of defined benefit pension scheme	**(45)**	15
Exchange differences on translating foreign operations	**–**	(70)
	(45)	(55)
Capital and dividend flows	**(12)**	–
Group MCEV at 30 June	**1,962**	713

Exchange differences on translating foreign operations have not occurred in the period as Phoenix Group Holdings changed its functional currency to Sterling in the second half of 2009.

Capital and dividend flows mainly comprise external dividend payments of £20 million net of a release of warrant liabilities of £7 million on conversion of warrants to ‘B’ ordinary shares.

IFRS operating profit

Group operating profit – IFRS

The Group has delivered a strong performance, generating an IFRS operating profit of £176 million for the half year ended 30 June 2010 (half year ended 30 June 2009 pro forma: £30 million), demonstrating both our ability to deliver high quality returns for shareholders and the strength of our business model.

Group operating profit	**Half year ended 30 June 2010 £m**	Half year ended 30 June 2009 pro forma £m
IFRS operating profit		
Phoenix Life	**182**	42
Ignis Asset Management	**22**	16
Corporate costs	**(28)**	(28)
Operating profit before tax[1]	**176**	30

1 Operating profit is presented before adjusting items

Phoenix Life – operating profit before tax

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.

Operating profit includes the effect of variances in experience for non-economic items, such as 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 accounted for outside of operating profit. Phoenix Life operating profit is net of policyholder finance charges and policyholder tax.

Phoenix Life operating profit	**Half year ended 30 June 2010 £m**	Half year ended 30 June 2009 pro forma £m
With-profit	**27**	24
With-profit where internal capital support provided	**–**	(34)
Non-profit and unit-linked	**127**	29
Longer term return on owners' funds	**21**	30
Management services	**7**	(7)
Phoenix Life operating profit before tax	**182**	42

The owners' one-ninth share of the policyholder with-profit bonus of £27 million increased by 13 percent on the pro forma comparative period of £24 million as 2010 bonus rates improved following better market conditions in 2009.

The with-profit funds where internal capital support has been provided had an operating profit of £nil (half year ended 30 June 2009 pro forma: £34 million operating loss). The pro forma comparative period was impacted by negative persistency experience and assumption changes.

The operating profit on non-profit and unit-linked funds was £127 million (half year ended 30 June 2009 pro forma: £29 million) and this includes margin emergence of £84 million (half year ended 30 June 2009 pro forma: £77 million) and return on surplus assets of £9 million (half year ended 30 June 2009 pro forma: £4 million). The 2010 half year result benefited £16 million from back book management including data cleansing projects and £5 million positive mortality experience whilst the 2009 half year result was impacted by negative experience variances related to expenses and guaranteed annuity option take up rates.

The longer term return on owners' funds for the first half year of 2010 of £21 million reflects the asset mix of owners' funds, primarily cash based assets and fixed interest securities. The return has decreased from the pro forma half year ended 30 June 2009 due to lower returns on cash given the current low interest rate environment. Returns on cash are not normalised.

The operating profit for management services of £7 million comprises income from the life companies in accordance with the respective management service agreements less fees payable in relation to the outsourcing of services and other operating costs.

Ignis Asset Management

Operating profit of the asset management business increased from the pro forma comparative period by 38 percent to £22 million. The results benefited from strong sales in retail products and liquidity funds and performance fees from the life companies. Further information on the results of Ignis Asset Management is included in the Group MCEV operating earnings section.

Corporate costs

Corporate office costs and project spend amounted to £16 million (half year ended 30 June 2009 pro forma: £6 million). The increase in corporate office costs in 2010 reflects the additional ongoing costs associated with our Premium Listing on the LSE. The balance of the charge in both periods relates primarily to the pension schemes.

IFRS profit after tax

IFRS profit after tax is reconciled to operating profit, as follows:

	Half year ended 30 June 2010 £m
Operating profit before adjusting items	**176**
Investment return variances and economic assumption changes on long-term business	**128**
Variance on owners' funds	**28**
Amortisation of acquired in-force business and other intangibles	**(73)**
Non-recurring items	**(19)**
Profit before finance costs attributable to owners	**240**
Finance costs attributable to owners	**(60)**
Profit before the tax attributable to owners	**180**
Tax credit attributable to owners	**27**
Profit for the period attributable to owners	**207**

Investment return variances and economic assumption changes on long-term business

The expected return on investments for both policyholder and owners' 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 based on market yields on risk-free fixed interest assets at the start of each financial year. 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 set out in note 3.3 to the IFRS condensed consolidated interim financial statements.

Overall, the Phoenix Life business had favourable investment return variances and economic assumption changes of £128 million for the half year ended 30 June 2010, primarily driven by improvements in the property market, and strong returns on investments in hedge funds.

Variance on owners' funds

The favourable variance on owners' funds of £28 million for the half year ended 30 June 2010 mainly relates to positive returns on interest rate swaps held in the shareholder fund and strong returns on investments in private equity and hedge funds partially offset by losses on interest rate swaps held in the holding companies.

Amortisation of acquired in-force business and other intangibles

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the Pearl businesses.

The acquired in-force business is being amortised in line with the run-off of the acquired businesses. Amortisation of acquired in-force business during the period totalled £64 million. Amortisation of other intangible assets totalled £9 million in the period.

Non-recurring items

Non-recurring items include:

- Costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme with its outsourcers of £11 million
- Premium Listing and other restructuring costs of £28 million
- Regulatory change and systems transformation costs of £13 million
- A gain of £29 million following the near finalisation of revised asset shares in the Phoenix & London Assurance with-profit fund as a result of a guaranteed annuity option compromise scheme last year which reduced longevity risk for the Group whilst providing policyholder benefit enhancements. This partially offsets the overall charge of £78 million recognised in the second half of 2009 which was based on estimated asset shares.

Finance costs attributable to owners

	Half year ended 30 June 2010 £m
Debt finance costs[1]	49
Other finance costs	11
Finance costs attributable to owners	**60**

1 Finance costs in respect of the Impala and Pearl facility agreements (and associated swap interest) and the Royal London PIK notes and facility

Tax 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 (the previous exemption was for 20 years from 15 January 2008).

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

The Group received a tax credit of £27 million for the half year ended 30 June 2010, despite a profit before tax attributable to owners of £180 million, primarily as a result of net tax losses on corporate restructurings of the Group life insurance businesses.

Earnings per share

On 5 July 2010, in connection with the Group's Premium Listing, 32,400,000 contingent rights over shares were restructured through the issue of the same number of ordinary shares to the holders of such rights.
These contingent rights have not been included in the earning per share calculation at 30 June 2010 as none of the conditions for issuing shares to the contingent right holders were satisfied at that date. If the above shares had been issued on 1 January 2010 instead of 5 July 2010 the impact on basic earnings per share would have been to dilute it from 135.6p to 108.9p per share*.

* Using 164.4 million shares (132 million shares plus 32.4 million shares) and a profit of £179 million as disclosed in note 5 of the IFRS condensed consolidated interim financial statements.

Capital management

Each UK life company must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the FSA. These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate group level.

The IGD is the Group's primary capital and solvency measure. The Group's IGD assessment is made at the highest EEA level insurance group holding company, which is Phoenix Life Holdings Limited, where we have a regulatory obligation to have a positive position at all times.

IGD surplus

The estimated IGD surplus has increased by £0.1 billion to £1.3 billion at 30 June 2010 compared to £1.2 billion at 31 December 2009, despite the payment of the 2009 dividend and debt financing and repayments of £0.1 billion in the first half of 2010.

The key drivers of the movement in the solvency position are:

- Capital generation items of £0.2 billion including capital benefits from the National Provident Life restructure in the first quarter of 2010 and surpluses in the non-profit funds established during the period which are available for transfer to shareholders, offset by
- Dividend payments and debt financing and repayments of £0.1 billion.

The estimated IGD surplus at 30 June 2010 represents 135 percent coverage of regulatory requirements (31 December 2009: 132 percent), compared to an ongoing target of 125 percent. This represents headroom of £0.4 billion (31 December 2009: £0.2 billion) over our ongoing target.

Due to the Group's current structure, certain of the Group's subsidiaries are only included in the IGD calculation at 75 percent of their regulatory value. If 100 percent of the value of these subsidiaries were included in the PLHL IGD calculation, the overall IGD surplus would increase by approximately £0.2 billion based on the position as at 30 June 2010.

Sensitivity analysis

As part of the Group's internal risk management processes the estimated IGD surplus is tested against a number of financial and non-financial scenarios to ensure it remains in excess of the 125 percent target in a range of reasonably foreseeable circumstances. The results of that stress testing are provided below:

Sensitivity analysis	**30 June 2010**
Estimated IGD surplus	£1.3bn (135% margin)
Estimated IGD surplus following a 20 percent fall in equity markets	£1.3bn (144% margin)
Estimated IGD surplus following a 15 percent fall in property values	£1.3bn (136% margin)
Estimated IGD surplus following a 75 basis points parallel increase in yields	£1.3bn (135% margin)
Estimated IGD surplus following a 75 basis points parallel decrease in yields	£1.3bn (133% margin)
Estimated IGD surplus following credit spread widening[1]	£1.2bn (134% margin)
Estimated IGD surplus following a combined 25 percent fall in equity markets, 20 percent fall in property, 75 basis points increase in yields and credit spreads widening[1]	£1.1bn (145% margin)

1 10 year term: AAA – 48bps, AA – 77bps, A – 108bps, BBB – 162bps

The percentage margin can increase in stress scenarios because the Group Capital Resource Requirement ("GCRR") includes a With-profits Insurance Capital Component ("WPICC") which is matched by Group Capital Resources ("GCR") in the with-profit funds. In stress scenarios the WPICC typically reduces as the regulatory surplus moves closer to the realistic surplus. As the value of GCR falls in stress scenarios, it is broadly offset by a corresponding decrease in the WPICC within the GCRR. Although both GCR and GCRR decline by broadly the same amount the percentage margin increases purely because the GCRR component of the calculation is a lower absolute number. Conversely, as markets improve, both the WPICC in the GCR and GCRR increase, thereby reducing the percentage margin.

Solvency II

The Group has a well-established group-wide Solvency II programme and has continued to progress its development of a Solvency II compliant internal model. Development of the internal model is on track and should allow the assessment of a fully operational internal model for various funds prior to the 2012 implementation date. Our actuarial IT systems transformation project is closely linked to the development of the internal model which will be developed in two further phases for the remaining funds between now and 2013.

In July 2010, the Group completed a key milestone of internal model development, submitting the pre-application process qualifying criteria template to the FSA, indicating the Group's readiness for entry into the Solvency II internal model pre-application process. Entry into the pre-application process will be a key step in achieving approval for use of a Solvency II internal model. If approved, this will enable use of the model to calculate the solvency capital requirement (SCR), rather than relying on the standard formula. The Group's models better reflect the risks within the businesses than the "one-size-fits-all" standard formula and should therefore give a more appropriate assessment of the capital required to support the business, consistent with the way in which the business is managed.

Following the approval of the Solvency II directive in 2009, development of the Level 2 implementing measures has continued, setting out technical Solvency II standards. The Group has been actively involved in supporting the consultation of these standards, both through formal consultation and participation in key industry forums.
The fifth Quantitative Impact Study (QIS5) runs between August and November 2010 and will further support the development of these standards. The Group is participating in the QIS5 exercise recognising this as an important step in understanding the likely impact of Solvency II.

Risk management

Risk management is an essential part of the Group’s strategic agenda. The Board seeks to ensure that the Group understands and manages its risks accordingly; to either create additional value for its stakeholders or to mitigate any potentially adverse effects.

The Group has continued to take steps to strengthen its risk environment and further develop its risk framework during the first half of 2010, which have included the creation of a Group Board Risk Committee in February 2010 with responsibility for the oversight of risk across the Group. The Group Risk Committee comprises five non-executive Directors and has met twice during the first half of 2010.

Further detail of the Group’s risk management framework is provided in the Performance section and note 42 of the 2009 Annual Report and Accounts. The Board believes that the principal risks and uncertainties as reported in the 2009 Annual Report and Accounts are still relevant for the latter half of 2010, and is satisfied that there are appropriate arrangements in place for their management and mitigation.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

- **Statement of Directors' responsibilities**
- **Auditor's review report**
- **Condensed consolidated interim financial statements and notes**

Statement of Directors' responsibilities

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

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

1. The condensed consolidated financial statements for the half year ended 30 June 2010, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings and its consolidated subsidiaries taken as a whole;
2. The Interim Report includes a fair review of the state of affairs of Phoenix Group Holdings and its consolidated subsidiaries as at 30 June 2010 and for the financial half year to which the Interim Report and Accounts relate. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings and its consolidated subsidiaries for the remaining six months of the year; and
3. The Interim Report includes a fair review of the information required on material transactions with related parties.

Jonathan Moss
Group Chief Executive

Jonathan Yates
Group Finance Director

St Helier
26 August 2010

To: The Board of Directors of Phoenix Group Holdings

Auditor's review report

Introduction

We have reviewed the accompanying condensed consolidated interim financial information for the six month period ended 30 June 2010, of Phoenix Group Holdings, a company incorporated in the Cayman Islands, as set out on the pages 29 to 35, which comprises the condensed consolidated income statement, the condensed statement of consolidated comprehensive income, the pro forma reconciliation of group operating profit to profit before the tax 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 36 to 53 for the half year period then ended. The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34, as adopted by the European Union.

The Hague, 26 August 2010
Ernst & Young Accountants LLP
was signed by
S.B. Spiessens

Condensed consolidated interim financial statements and notes

Condensed consolidated income statement
for the half year ended 30 June 2010

	Notes	**Half year ended 30 Jun 2010 £m**	Half year ended 30 Jun 2009 Restated £m	Year ended 31 Dec 2009 £m
Gross premiums written		**808**	–	545
Less: premiums ceded to reinsurers		**(44)**	–	(31)
Net premiums written		**764**	–	514
Fees		**118**	–	101
Net investment income		**1,991**	(35)	1,032
Total revenue, net of reinsurance payable		**2,873**	(35)	1,647
Other operating income		**8**	–	67
Net income		**2,881**	(35)	1,714
Policyholder claims		**(2,745)**	–	(2,043)
Less: reinsurance recoveries		**91**	–	105
Change in insurance contract liabilities		**177**	–	1,137
Change in reinsurers' share of insurance contract liabilities		**106**	–	142
Transfer from/(to) unallocated surplus		**6**	–	(175)
Net policyholder claims and benefits incurred		**(2,365)**	–	(834)
Change in investment contract liabilities		**244**	–	(429)
Acquisition costs		**(7)**	–	(8)
Change in present value of future profits		**–**	–	4
Amortisation of acquired in-force business		**(74)**	–	(50)
Amortisation of other intangible assets		**(9)**	–	(7)
Administrative expenses		**(345)**	(2)	(255)
Net (income)/expense attributable to unit holders		**(6)**	–	43
Total operating expenses		**(2,562)**	(2)	(1,536)
Profit/(loss) before finance costs and tax		**319**	(37)	178
Finance costs		**(123)**	–	(87)
Profit/(loss) for the period before tax		**196**	(37)	91
Tax attributable to policyholders' returns		**(16)**	–	60
Profit/(loss) before the tax attributable to owners		**180**	(37)	151
Tax credit	4	**11**	**–**	44
Add/(deduct): tax attributable to policyholders' returns		**16**	**–**	(60)
Tax credit/(charge) attributable to owners		**27**	–	(16)
Profit/(loss) for the period attributable to owners		**207**	(37)	135
Attributable to				
Owners of the parent		**179**	(37)	95
Non-controlling interests		**28**	–	40
		207	(37)	135
Earnings per ordinary share	5			
Basic earnings per ordinary share		**135.6p**	(67.1)p	102.9p
Diluted earnings per ordinary share		**135.6p**	(67.1)p	89.8p

The condensed consolidated income statement for the year ended 31 December 2009 incorporates the results of the acquired Pearl businesses for the four-month post-acquisition period only.

Condensed statement of consolidated comprehensive income
for the half year ended 30 June 2010

	Notes	**Half year ended 30 Jun 2010 £m**	Half year ended 30 Jun 2009 Restated £m	Year ended 31 Dec 2009 £m
Profit/(loss) for the period		**207**	(37)	135
Other comprehensive income:				
Actuarial gains of defined benefit pension schemes		**8**	–	105
Contribution in respect of actuarial losses of defined benefit pension scheme by the with-profit funds	9	**27**	–	–
Exchange differences on translating foreign operations		**–**	(70)	(40)
		35	(70)	65
Tax charge	4	**(2)**	–	(31)
		33	(70)	34
Total comprehensive income for the period		**240**	(107)	169
Attributable to:				
Owners of the parent		**212**	(107)	129
Non-controlling interests	8	**28**	–	40
		240	(107)	169

The condensed statement of consolidated comprehensive income for the year ended 31 December 2009 incorporates the results of the acquired Pearl businesses for the four-month post-acquisition period only.

Pro forma reconciliation of Group operating profit to profit before the tax attributable to owners
for the half year ended 30 June 2010

	Notes	**Half year ended 30 Jun 2010 £m**	Half year ended 30 Jun 2009 Restated £m	Year ended 31 Dec 2009 £m
Operating profit				
Phoenix Life		**182**	–	285
Ignis Asset Management		**22**	–	14
		204	–	299
Corporate costs		**(28)**	(2)	(17)
Total operating profit/(loss) before adjusting items		**176**	(2)	282
Investment return variances and economic assumption changes on long-term business	3.3	**128**	–	145
Variance on owners' funds	3.3	**28**	(35)	(70)
Amortisation of acquired in-force business		**(64)**	–	(45)
Amortisation of other intangible assets		**(9)**	–	(7)
Non-recurring items		**(19)**	–	(105)
Profit/(loss) before finance costs attributable to owners		**240**	(37)	200
Finance costs attributable to owners		**(60)**	–	(49)
Profit/(loss) before the tax attributable to owners		**180**	(37)	151
Tax attributable to owners	4	**27**	–	(16)
Profit/(loss) for the period attributable to owners		**207**	(37)	135

The analysis of pro forma profit attributable to owners for the year ended 31 December 2009 incorporates the results of the acquired Pearl businesses for the four-month post-acquisition period only.

Condensed statement of consolidated financial position
as at 30 June 2010

	Notes	**30 Jun 2010 £m**	30 Jun 2009 Restated £m	31 Dec 2009 £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	6	**–**	–	–
Share premium		**869**	401	859
Other reserves		**235**	6	257
Shares held by employee trust		**(4)**	–	(4)
Foreign currency translation reserve		**93**	63	93
Retained earnings		**489**	(3)	207
Total equity attributable to owners of the parent		**1,682**	467	1,412
Non-controlling interests	8	**733**	–	728
Total equity		**2,415**	467	2,140
Liabilities				
Pension scheme deficit	9	**194**	–	125
Insurance contract liabilities				
Liabilities under insurance contracts	10	**50,001**	–	50,291
Unallocated surplus		**715**	–	721
		50,716	–	51,012
Financial liabilities				
Investment contracts	12.1	**7,969**	–	8,570
Borrowings	11	**4,135**	–	4,181
Deposits received from reinsurers		**432**	–	431
Derivatives	12.1	**2,273**	46	2,842
Net asset value attributable to unit holders	12.1	**1,134**	–	946
Obligations for repayment of collateral received		**4,441**	–	4,106
		20,384	46	21,076
Provisions		**98**	–	101
Deferred tax		**666**	–	776
Reinsurance payables		**22**	–	17
Payables related to direct insurance contracts		**718**	–	759
Current tax		**89**	–	103
Accruals and deferred income		**149**	6	177
Other payables		**1,565**	–	650
Total liabilities		**74,601**	52	74,796
Total equity and liabilities		**77,016**	519	76,936

Condensed statement of consolidated financial position (continued)
as at 30 June 2010

	Notes	**30 Jun 2010 £m**	30 Jun 2009 Restated £m	31 Dec 2009 £m
ASSETS				
Pension scheme surplus	9	**72**	–	–
Intangible assets				
Goodwill		**77**	–	77
Acquired in-force business		**2,089**	–	2,163
Customer relationships		**429**	–	438
Present value of future profits		**35**	–	35
		2,630	–	2,713
Property, plant and equipment		**34**	–	34
Investment property		**1,728**	–	1,915
Financial assets				
Loans and receivables		**1,085**	–	1,081
Derivatives	12.1	**3,258**	–	3,540
Equities	12.1	**11,297**	–	13,151
Fixed and variable rate income securities	12.1	**38,174**	–	37,658
Collective investment schemes	12.1	**6,567**	–	6,094
		60,381	–	61,524
Deferred tax assets		**–**	–	81
Insurance assets				
Reinsurers’ share of insurance contract liabilities		**2,943**	–	2,860
Reinsurance receivables		**259**	–	264
Insurance contract receivables		**21**	–	17
		3,223	–	3,141
Current tax		**12**	–	44
Prepayments and accrued income		**614**	–	622
Other receivables		**1,644**	–	781
Cash and cash equivalents		**6,678**	4	6,081
Amounts in trust		**–**	515	–
Total assets		**77,016**	519	76,936

Condensed statement of consolidated cash flows
for the half year ended 30 June 2010

	Notes	**Half year ended 30 Jun 2010 £m**	Half year ended 30 Jun 2009 Restated £m	Year ended 31 Dec 2009 £m
Cash flows from operating activities				
Cash generated/(absorbed) by operations	13	**704**	–	(357)
Taxation paid		**4**	–	37
Net cash flows from operating activities		**708**	–	(320)
Cash flows from investing activities				
On acquisition of the Pearl businesses		**–**	–	6,146
Purchase of property, plant and equipment		**(1)**	–	–
Interest received		**–**	1	2
Net change in cash invested in trust account		**–**	1	591
Net cash flows from investing activities		**(1)**	2	6,739
Cash flows from financing activities				
Repayment on redemption of shares		**–**	–	(41)
Repurchase of shares in subsidiaries from non-controlling interests	8	**–**	–	(3)
Proceeds from issuing shares in subsidiaries to non-controlling interests	8	**97**	–	–
Interest paid on borrowings		**(119)**	–	(221)
Proceeds of new borrowings		**–**	–	42
Ordinary share dividends paid	7	**(20)**	–	–
Coupon on perpetual reset capital securities paid		**(31)**	–	–
Dividends paid to non-controlling interests	8	**(7)**	–	(8)
Repayment of borrowings		**(26)**	–	(110)
Partial buy back of non-controlling interests	8	**(4)**	–	–
Net cash flows from financing activities		**(110)**	–	(341)
Net increase in cash and cash equivalents		**597**	2	6,078
Cash and cash equivalents at the beginning of the period		**6,081**	2	2
Effect of exchange rate changes on cash and cash equivalents		**–**	–	1
Cash and cash equivalents at the end of the period		**6,678**	4	6,081

The condensed statement of consolidated cash flows for the year ended 31 December 2009 incorporates the cash flows of the acquired Pearl businesses for the four-month post-acquisition period only.

Condensed statement of consolidated changes in equity
for the half year ended 30 June 2010

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 2010	**–**	**859**	**257**	**(4)**	**93**	**207**	**1,412**	**728**	**2,140**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**212**	**212**	**28**	**240**
Dividends paid on ordinary shares (note 7)	**–**	**–**	**(20)**	**–**	**–**	**–**	**(20)**	**–**	**(20)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Coupon paid to non-controlling interests, net of tax relief	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24)**	**(24)**
Issue of share capital (note 6)	**–**	**1**	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**
Credit to equity for equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**1**
Conversion of warrants into ordinary shares (note 6)	**–**	**9**	**(2)**	**–**	**–**	**–**	**7**	**–**	**7**
Shares in subsidiaries subscribed for by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**97**	**97**
Restructure of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**70**	**70**	**(70)**	**–**
Partial buy back of non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19)**	**(19)**
At 30 June 2010	**–**	**869**	**235**	**(4)**	**93**	**489**	**1,682**	**733**	**2,415**

Condensed statement of consolidated changes in equity – restated
for the half year ended 30 June 2009

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 2009	–	401	6	–	133	33	573	–	573
Total comprehensive income for the period - as previously stated	–	–	–	–	–	(2)	(2)	–	(2)
Prior period adjustments and changes in accounting policies (note 2)	–	–	–	–	(70)	(35)	(105)	–	(105)
Total comprehensive income for the period – as restated	–	–	–	–	(70)	(37)	(107)	–	(107)
Credit to equity for equity-settled share-based payment	–	–	–	–	–	1	1	–	1
At 30 June 2009	–	401	6	–	63	(3)	467	–	467

Condensed statement of consolidated changes in equity
for the year ended 31 December 2009

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 2009	–	401	6	–	133	33	573	–	573
On acquisition of the Pearl businesses	–	–	–	–	–	–	–	699	699
Total comprehensive income for the period	–	–	–	–	(40)	169	129	40	169
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(8)	(8)
Issue of share capital	–	440	–	–	–	–	440	–	440
Issue of share capital into employee trust	–	4	–	(4)	–	–	–	–	–
Redemption of shares	–	(41)	–	–	–	–	(41)	–	(41)
Contingent rights over shares: shares to be issued	–	–	255	–	–	–	255	–	255
Credit to equity for equity-settled share-based payment	–	–	–	–	–	5	5	–	5
Conversion of warrants into ordinary shares	–	55	(4)	–	–	–	51	–	51
Repurchase of shares in subsidiaries from non-controlling interests	–	–	–	–	–	–	–	(3)	(3)
At 31 December 2009	–	859	257	(4)	93	207	1,412	728	2,140

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

The interim financial statements for the half year ended 30 June 2010 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 29 to 53 and were authorised by the Board of Directors for issue on 26 August 2010. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young Accountants LLP and their review report appears on page 28.

The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and in accordance with the accounting policies set out in the 2009 financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted for use in the European Union, except for the amendments referred to below.

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

- IFRS 3 *Business Combinations (Revised)*. This converges International and US Reporting requirements relating to business combinations;
- IAS 27 *Consolidated and Separate Financial Statements (Revised)*. This revises the accounting for non-controlling interests and the loss of control of subsidiaries;
- Annual improvements 2009. This makes a number of minor improvements to existing standards and interpretations;
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39). This clarifies the treatment of embedded derivatives;
- IFRIC 17 *Distributions of Non-Cash Assets to Owners*. IFRIC 17 provides guidance on how an entity should account for distributions of non-cash assets to owners, other than in limited circumstances; and
- IAS 24 *Related Party Disclosures*. This amends the definition of a related party and clarifies its intended meaning. As permitted, the amended standard has been applied prior to its implementation date of 1 January 2011.

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

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

The financial statements for the year ended 31 December 2009 have been audited by the Group's auditor, Ernst & Young Accountants LLP.

2. Prior period adjustments and changes in accounting policies

The financial statements for the year ended 31 December 2009 reported the effect of prior period adjustments and changes in accounting policies on the total consolidated comprehensive income for the period ended 31 December 2008 and the consolidated financial position of the Group at both 2 January and 31 December 2008.

There have been no changes in accounting policies and no prior period adjustment identified in the current reporting period, and the comparatives for the year ended 31 December 2009 included in these interim financial statements are as presented in the financial statements for the year ended 31 December 2009. However, comparatives for the half year ended 30 June 2009 as reported in the 2009 interim financial statements of the Company have been restated in these interim financial statements to reflect the impact of the prior period adjustments and changes in accounting policies disclosed in the financial statements for the year ended 31 December 2009. The impact of this restatement is as follows:

- the reclassification of the Company's Initial Public Offering and Founders' warrants from equity instruments to financial liabilities has increased the derivative financial liabilities as stated in the condensed statement of consolidated financial position as at 30 June 2009 by £35 million with a corresponding charge in net investment income within the condensed consolidated income statement for the half year ended 30 June 2009; and

- the change in the presentational currency of the Group from euros to sterling has decreased the foreign currency translation reserve in the condensed statement of consolidated financial position as at 30 June 2009 by £70 million and this emerges as a corresponding charge in the condensed statement of consolidated comprehensive income for the half year ended 30 June 2009.

3. Segmental analysis

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

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

For management purposes, the Group is organised into business units based on their products and services and has two reportable 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 measured differently from profit or loss in the consolidated financial statements. Group financing (including finance costs) and owners' taxes are managed on a Group basis and are not allocated to individual operating segments.

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

3.1. Segmental result

Half year ended 30 June 2010

	Phoenix Life £m	Ignis Asset Management £m	Unallocated corporate £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	**764**	**–**	**–**	**–**	**764**
Other segment	**–**	**–**	**–**	**–**	**–**
	764	**–**	**–**	**–**	**764**
Fees from:					
External customers	**74**	**44**	**–**	**–**	**118**
Other segment	**–**	**45**	**–**	**(45)**	**–**
	74	**89**	**–**	**(45)**	**118**
Net investment income:					
Net investment income	**1,979**	**–**	**12**	**–**	**1,991**
Offset interest income on interest swaps against interest expense	**–**	**–**	**(27)**	**–**	**(27)**
	1,979	**–**	**(15)**	**–**	**1,964**
Other operating income:					
Recurring	**6**	**–**	**–**	**–**	**6**
Non-recurring	**2**	**–**	**–**	**–**	**2**
	8	**–**	**–**	**–**	**8**
Net income	**2,825**	**89**	**(15)**	**(45)**	**2,854**
Net policyholder claims and benefits incurred:					
Recurring	**(2,389)**	**–**	**–**	**–**	**(2,389)**
Non-recurring	**24**	**–**	**–**	**–**	**24**
	(2,365)	**–**	**–**	**–**	**(2,365)**
Depreciation and amortisation:					
Depreciation of property, plant and equipment	**–**	**(1)**	**–**	**–**	**(1)**
Amortisation of acquired in-force business	**(74)**	**–**	**–**	**–**	**(74)**
Amortisation of other intangible assets	**(8)**	**(1)**	**–**	**–**	**(9)**
	(82)	**(2)**	**–**	**–**	**(84)**
Other operating expenses:					
Recurring	**(29)**	**(66)**	**(18)**	**45**	**(68)**
Non-recurring	**(27)**	**(1)**	**(17)**	**–**	**(45)**
	(56)	**(67)**	**(35)**	**45**	**(113)**
Total operating expense	**(2,503)**	**(69)**	**(35)**	**45**	**(2,562)**
Profit/(loss) before finance costs and tax	**322**	**20**	**(50)**	**–**	**292**
Finance costs	**(36)**	**–**	**(87)**	**–**	**(123)**
Offset interest income on interest swaps against interest expense	**–**	**–**	**27**	**–**	**27**
	(36)	**–**	**(60)**	**–**	**(96)**
Profit before tax	**286**	**20**	**(110)**	**–**	**196**
Tax attributable to policyholders' returns	**(16)**	**–**	**–**	**–**	**(16)**
Segmental result before the tax attributable to owners	**270**	**20**	**(110)**	**–**	**180**

Half year ended 30 June 2009

In the half year ended 30 June 2009 the results related to unallocated corporate items.

Year ended 31 December 2009

	Phoenix Life £m	Ignis Asset Management £m	Unallocated corporate £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	514	–	–	–	514
Other segment	–	–	–	–	–
	514	–	–	–	514
Fees from:					
External customers	71	30	–	–	101
Other segment	–	28	–	(28)	–
	71	58	–	(28)	101
Net investment income:					
Net investment income	1,095	–	(63)	–	1,032
Offset interest income on interest swaps against interest expense	–	–	(16)	–	(16)
	1,095	–	(79)	–	1,016
Other operating income:					
Recurring	49	–	–	–	49
Non-recurring	18	–	–	–	18
	67	–	–	–	67
Net income	1,747	58	(79)	(28)	1,698
Net policyholder claims and benefits incurred:					
Recurring	(760)	–	–	–	(760)
Non-recurring	(74)	–	–	–	(74)
	(834)	–	–	–	(834)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	(1)	(1)	–	–	(2)
Amortisation of acquired in-force business	(50)	–	–	–	(50)
Amortisation of other intangible assets	(6)	(1)	–	–	(7)
	(57)	(2)	–	–	(59)
Other operating expenses:					
Recurring	(562)	(43)	(17)	28	(594)
Non-recurring	(45)	(4)	–	–	(49)
	(607)	(47)	(17)	28	(643)
Total operating expense	(1,498)	(49)	(17)	28	(1,536)
Profit/(loss) before finance costs and tax	249	9	(96)	–	162
Finance costs	(22)	–	(65)	–	(87)
Offset interest income on interest swaps against interest expense	–	–	16	–	16
	(22)	–	(49)	–	(71)
Profit before tax	227	9	(145)	–	91
Tax attributable to policyholders' returns	60	–	–	–	60
Segmental result before the tax attributable to owners	287	9	(145)	–	151

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

Half year ended 30 June 2010

	Phoenix Life £m	Ignis Asset Management £m	Unallocated corporate £m	Eliminations £m	Total £m
Operating profit/(loss) before adjusting items	**182**	**22**	**(28)**	**–**	**176**
Investment return variances and economic assumption changes on long-term business	**128**	**–**	**–**	**–**	**128**
Variance on owners' funds	**33**	–	**(5)**	–	**28**
Amortisation of acquired in-force business	**(64)**	**–**	**–**	**–**	**(64)**
Amortisation of other intangible assets	**(8)**	**(1)**	**–**	**–**	**(9)**
Non-recurring items	**(1)**	**(1)**	**(17)**	**–**	**(19)**
Financing costs attributable to owners	**–**	**–**	**(60)**	**–**	**(60)**
Segment result before the tax attributable to owners	**270**	**20**	**(110)**	**–**	**180**

Non-recurring items include:

- costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme with its outsourcers of £11 million;
- Premium Listing and other restructuring costs of £28 million;
- regulatory change and systems transformation costs of £13 million; and
- a gain of £29 million following the near finalisation of revised asset shares in the Phoenix & London Assurance with-profit fund as a result of a guaranteed annuity option compromise scheme last year which reduced longevity risk for the Group whilst providing policyholder benefit enhancements. This partially offsets the overall charge of £78 million recognised in the second half of 2009 which was based on estimated asset shares.

Half year ended 30 June 2009

In the half year ended 30 June 2009 the results related to unallocated corporate items.

Year ended 31 December 2009

	Phoenix Life £m	Ignis Asset Management £m	Unallocated corporate £m	Eliminations £m	Total £m
Operating profit/(loss) before adjusting items	285	14	(17)	–	282
Investment return variances and economic assumption changes on long-term business	145	–	–	–	145
Variance on owners' funds	9	–	(79)	–	(70)
Amortisation of acquired in-force business	(45)	–	–	–	(45)
Amortisation of other intangible assets	(6)	(1)	–	–	(7)
Non-recurring items	(101)	(4)	–	–	(105)
Financing costs attributable to owners	–	–	(49)	–	(49)
Segment result before the tax attributable to owners	287	9	(145)	–	151

Non-recurring items included:

- a charge of £78 million related to the court approved guaranteed annuity option compromise scheme for Phoenix & London Assurance Limited. This reduced longevity risk from the business whilst providing policyholder benefit enhancements and resulted in a charge recognised in the consolidated income statement as a change in insurance contract liabilities and administrative expenses of £74 million and £4 million respectively; and
- other non-recurring items of £27 million included costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme with its outsourcers.

3.3. Investment return variances and economic assumption changes

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

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

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

The investment variances and economic assumption changes excluded from the long-term business operating profit reflects the impact of changes in credit spreads on corporate bonds and equity, property and yield movements and are as follows:

	Half year ended 30 Jun 2010 £m	Half year ended 30 Jun 2009 £m	Year ended 31 Dec 2009 £m
Investment return variances and economic assumption changes on long-term business	**128**	–	145

Owners' funds
For non long-term business including owners' funds, the total investment income, including realised and unrealised 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 2010 £m	Half year ended 30 Jun 2009 Restated £m	Year ended 31 Dec 2009 £m
Variance on owners' funds of:			
Subsidiary undertakings	**24**	–	9
The Company	**4**	(35)	(79)
	28	(35)	(70)

The variances on owners' funds of the Company comprises unrealised fair value gains/(losses) arising from movements in the fair value of warrants in issue over the Company's shares together with foreign exchange gains/(losses) experienced in the period.

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 2010 %	Half year ended 30 Jun 2009 %	Year ended 31 Dec 2009 %
Equities	7.6	6.3	6.3
Property	6.6	5.8	5.8
Gilts (15 year gilt)	4.5	3.7	3.7
Other fixed interest (15 year gilt plus 0.6%)	5.1	4.3	4.3

3.4. Segmental total assets and total liabilities

	30 Jun 2010		30 June 2009		31 Dec 2009	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Phoenix Life	**76,625**	**71,265**	–	–	76,633	71,652
Ignis Asset Management	**319**	**110**	–	–	303	120
Unallocated corporate	**72**	**3,226**	519	52	–	3,024
	77,016	**74,601**	519	52	76,936	74,796

4. Tax credit

4.1. Current period tax (credit)/charge

	Half year ended 30 Jun 2010 £m	Half year ended 30 Jun 2009 £m	Year ended 31 Dec 2009 £m
Current tax:			
UK Corporation tax	**28**	–	(15)
Overseas tax	**3**	–	5
	31	–	(10)
Adjustment in respect of prior years	**–**	–	(3)
	31	–	(13)
Deferred tax:			
Reversal/(origination) of temporary differences			
On non-profit surpluses	**(2)**	–	(51)
On amortisation of acquired in-force business	**(25)**	–	(17)
On amortisation of other intangible assets	**(3)**	–	–
On profit arising from the changes in assumptions used for determining insurance liabilities in accordance with PS 06/14	**–**	–	(5)
Other temporary differences	**(2)**	–	–
Losses on corporate restructuring not matched in accounts	**(35)**	–	–
Write down of deferred tax assets	**15**	–	–
Capital allowances in excess of depreciation	**–**	–	1
Pension scheme movements	**(9)**	–	16
On provisions for future expenditure	**4**	–	(12)
Utilisation of tax losses	**15**	–	63
Tax losses arising in the current period carried forward	**–**	–	(26)
	(42)	–	(31)
Total tax credit	**(11)**	–	(44)
Attributable to:			
policyholders	**16**	–	(60)
owners	**(27)**	–	16
	(11)	–	(44)

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge/(benefit) attributable to policyholder earnings was £16 million (half year ended 30 June 2009: £nil; year ended 31 December 2009: £(60) million).

4.2. Tax charged to other comprehensive income

	Half year ended 30 Jun 2010 £m	Half year ended 30 Jun 2009 £m	Year ended 31 Dec 2009 £m
Deferred tax on actuarial gains of defined benefit schemes	**2**	–	31

4.3. Reconciliation of tax credit

	Half year ended 30 Jun 2010 £m	Half year ended 30 Jun 2009 £m	Year ended 31 Dec 2009 £m
Profit/(loss) before tax	**196**	(37)	91
Policyholder tax (charge)/credit	**(16)**	–	60
Profit/(loss) before the tax attributable to owners	**180**	(37)	151
Tax at standard UK rate of 28%	**50**	(10)	42
Net tax losses on corporate restructuring not matched in accounts	**(126)**	–	(63)
Untaxed income	**(37)**	–	–
Disallowable expenses	**3**	–	10
Adjustment to tax charge in respect of prior years	**–**	–	(3)
Non taxable unrealised gains	**(13)**	–	–
Decrease in deferred tax on movement in non-profit surplus	**–**	–	(51)
Policyholder tax calculation methodology	**–**	–	48
Tax relief on accrued interest not valued	**–**	–	11
Profits taxed at rates other than 28%	**6**	10	12
Tax losses not valued	**72**	–	–
Write down of deferred tax assets	**15**	–	–
Other	**3**	–	10
Owners' tax (credit)/charge	**(27)**	–	16
Policyholder tax charge/(credit)	**16**	–	(60)
Total tax credit for the period	**(11)**	–	(44)

5. Earnings per share

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

	Half year ended 30 Jun 2010 £m	Half year ended 30 Jun 2009 Restated £m	Year ended 31 Dec 2009 £m
Profit/(loss) for the period	**207**	(37)	135
Share of result attributable to non-controlling interests	**(28)**	–	(40)
Profit/(loss) attributable to owners	**179**	(37)	95

The basic earnings per share of 135.6p (half year ended 30 June 2009: (67.1)p; year ended 31 December 2009: 102.9p) has been based on the profit of £179 million (half year ended 30 June 2009 restated: £(37) million; year ended 31 December 2009: £95 million) and a weighted average number of ordinary shares outstanding during the period of 132 million (half year ended 30 June 2009: 55 million; year ended 31 December 2009: 92 million), calculated as follows:

	Half year ended 30 Jun 2010 No. million	Half year ended 30 Jun 2009 No. million	Year ended 31 Dec 2009 No. million
Issued ordinary shares at beginning of the period	**130**	53	53
Effect of ordinary shares issued	**2**	2	39
Weighted average number of ordinary shares	**132**	55	92

The diluted earnings per share of 135.6p (half year ended 30 June 2009: (67.1)p; year ended 31 December 2009: 89.8p) has been based on the profit of £179 million (half year ended 30 June 2009 restated: £(37) million; year ended 31 December 2009: £95 million) and a diluted weighted average number of ordinary shares outstanding during the year of 132 million (half year ended 30 June 2009: 55 million; year ended 31 December 2009: 106 million), calculated as follows:

	Half year ended 30 Jun 2010 No. million	Half year ended 30 Jun 2009 No. million	Year ended 31 Dec 2009 No. million
Weighted average number of ordinary shares	**132**	55	92
Effect of warrants in issue	**–**	–	14
Weighted average number of ordinary shares (diluted)	**132**	55	106

The Founders', Sponsors' and IPO warrants issued in 2008 were dilutive up until 2 September 2009 and had the effect of increasing the weighted average number of ordinary shares by nil (half year ended 30 June 2009: 16 million; year ended 31 December 2009: 14 million) in calculating the diluted weighted averaged number of ordinary shares. However, as the Group reported a loss in the half year ended 30 June 2009, the increase in the weighted average number of ordinary shares of 16 million from the conversion of these warrants would have an antidilutive effect on the diluted earnings per share calculation and has therefore been excluded.

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 do not have a dilutive effect for the periods presented:

- 5 million warrants issued to the banks and other lenders involved in the restructuring of certain of the external debt of the Pearl businesses (the "Lenders") on 2 September 2009;
- 12.36 million warrants issued to Royal London on 2 September 2009; and
- the Founders', Sponsors' and IPO warrants from 2 September 2009 on which date the exercise price of the outstanding warrants was increased from €7 to €11.

The following contingent rights over shares have not been included in the diluted earnings per share figure, as none of the conditions would have been satisfied and therefore no shares would have been issued:

- 26.5 million contingent rights over shares issued to the vendors on 2 September 2009 as part of the consideration for the acquisition of the Pearl businesses. These were issuable in three tranches conditional upon the share price reaching thresholds of €13, €14 and€15 for 20 consecutive dealing days;
- 1 million contingent rights over shares were granted in satisfaction of the contingent underwriting fee. These were issuable conditional upon the share price reaching €15; and
- 8.5 million contingent rights over shares were granted on 2 September 2009 to the Lenders in part satisfaction of the financing fees incurred by the UK finance companies. These were issuable in three tranches conditional upon the share price reaching thresholds of €13, €14 and€15 for 20 consecutive dealing days.

On 5 July 2010, the Company's Standard Listing on the London Stock Exchange was upgraded to a Premium Listing. In connection with the Premium Listing, 32,400,000 of the contingent rights over shares were restructured through the issue of the same number of ordinary shares to the holders of such rights.

6. Share capital

	30 Jun 2010 £	30 Jun 2009 £	31 Dec 2009 £
Authorised:			
300 million (30 June 2009: 300 million; 31 December 2009: 300 million) ordinary shares of €0.0001 each	**22,050**	22,050	22,050
110 million (30 June 2009: nil; 31 December 2009: 110 million) 'B' ordinary shares of €0.0001 each	**9,700**	–	9,700
Nil (30 June 2009: 1 million; 31 December 2009: nil) preferred shares of €0.0001 each	**–**	74	–
	31,750	22,124	31,750
Issued and fully paid:			
80.4 million (30 June 2009: 75 million; 31 December 2009: 80.4 million) ordinary shares of €0.0001 each	**6,067**	5,583	6,067
52.0 million (30 June 2009: nil; 31 December 2009: 49.8 million) 'B' ordinary shares of €0.0001 each	**4,576**	–	4,383
	10,643	5,583	10,450

The holders of the ordinary and 'B' ordinary shares had the same rights to returns and voting. The holders were entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits.

As at 30 June 2010, ordinary shares and 'B' ordinary shares comprised 61 percent and 39 percent respectively of total issued shares.

In connection with the Company's Premium Listing, all 52,032,123 issued and fully paid 'B' ordinary shares were converted into ordinary shares on 5 July 2010 by way of a variation of rights and re-designation on a one-for-one basis.

Movements in share capital during the period:

	Number	£
Shares in issue at 1 January 2009 and 30 June 2009	75,000,000	5,583
'B' ordinary shares issued on acquisition of the Pearl businesses	40,700,000	3,588
Ordinary shares issued in part settlement of debt restructuring fees	3,500,000	307
'B' ordinary shares issued in part settlement of debt restructuring fees	7,070,000	620
'B' ordinary shares issued on assignment of PIK notes and facility	1,500,000	131
'B' ordinary shares issued to the employee trust	500,000	44
Ordinary shares redeemed on acquisition of the Pearl businesses	(6,038,344)	(533)
Ordinary shares issued on conversion of warrants	7,969,076	710
Shares in issue at 31 December 2009	130,200,732	10,450
'B' ordinary shares issued on conversion of warrants	**2,085,123**	**177**
'B' ordinary shares issued to the Chairman	**177,000**	**16**
Shares in issue at 30 June 2010	**132,462,855**	**10,643**

On 13 January 2010, 147,925 'B' ordinary shares were issued and on 15 January 2010, 1,937,198 'B' ordinary shares were issued. Both of these issues were pursuant to the exchange invitation for the insiders warrants and were issued at a premium of £9 million.

On 31 March 2010, 177,000 'B' ordinary shares were issued to the Chairman at a premium of £1 million.
As announced previously, the Chairman had an entitlement under his letter of appointment to an award of 300,000 'B' ordinary shares. In order to satisfy this agreement, shares were issued representing the net of tax value, with the Group funding the relevant taxes.

7. Dividends on ordinary shares

	Half year ended 30 Jun 2010 £m	Half year ended 30 Jun 2009 £m	Year ended 31 Dec 2009 £m
Dividend declared and paid in 2010 at 15p per share (2009: nil)	**20**	–	–

On 30 March 2010, the Board declared a dividend of €0.17 per share in respect of the year ended 31 December 2009. This dividend was paid on 15 April 2010.

8. Non-controlling interests

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January 2009 and 30 June 2009	–	–	–
On acquisition of the Pearl businesses	518	181	699
Profit for the period	9	31	40
Dividend paid	–	(8)	(8)
Effect of share transactions	–	(3)	(3)
At 1 January 2010	**527**	**201**	**728**
Profit for the period	**9**	**19**	**28**
Dividends paid	**–**	**(7)**	**(7)**
Restructure of non-controlling interests	**(70)**	**–**	**(70)**
Coupons paid, net of tax relief	**(24)**	**–**	**(24)**
Partial buyback of non-controlling interest	**(19)**	**–**	**(19)**
Effect of share transactions	**–**	**97**	**97**
At 30 June 2010	**423**	**310**	**733**

8.1. Perpetual Reset Capital Securities

On 1 January 2010, Pearl Group Holdings (No. 1) Limited ("PGH1") had in issue £500 million Perpetual Reset Capital Securities ("the Notes"). On 22 April 2010, the holders of the Notes ("the Noteholders") agreed to a number of amendments to the Notes, including a 15% reduction in the face value of the Notes, the amendment of the Alternative Coupon Satisfaction Mechanism and the imposition of an additional restriction on the payment of dividends by Phoenix Group Holdings if future coupons are deferred. The 15% reduction in face value of the Notes emerges in the condensed statement of consolidated financial position as a £70 million reduction in non-controlling interests representing the impact of this reduction on the Notes held by external Noteholders. Following these amendments, PGH1 settled in full on 26 April 2010 the 2010 coupon due on the Notes. In connection with the amendments to the Notes, the coupon which was deferred during 2009 is required to be settled by 31 December 2010.

During the period the Company exercised a call option to acquire a number of the Notes from an external party for consideration of £4 million. This transaction has been recognised in the condensed statement of consolidated financial position as a reduction of £19 million in non-controlling interests.

8.2. UK Commercial Property Trust Limited

UK Commercial Property Trust Limited is a property investment subsidiary which is domiciled in Guernsey and listed on the London Stock Exchange.

9. Pension schemes

The condensed statement of consolidated financial position incorporates the reported surplus/(deficit) of the PGL Pension Scheme and the Pearl Staff Pension Scheme at 30 June 2010 respectively. The economic surplus of the PGL Pension Scheme amounted to £143 million (31 December 2009: £62 million); this has been adjusted to eliminate on consolidation the carrying value of insurance policies held by the scheme of £71 million (31 December 2009: £66 million) in deriving the reported surplus/(deficit) of the scheme.

The triennial valuations as at 30 June 2009 for the PGL Pension Scheme and the Pearl Staff Pension Scheme are nearing completion/completed respectively and the reported surplus/(deficit) of both schemes reflects the assumptions underlying these latest triennial valuations. As an integral step in finalising the results of the PGL Pension Scheme triennial valuation, discussions are ongoing between the Group and the Trustees of the scheme over future funding contributions. These discussions were sufficiently well advanced at the interim reporting date to recognise a receivable under an indemnity agreement within the with-profit funds of the Group for contributions arising as a result of changes in longevity assumptions resulting from the previous triennial valuation of the PGL Pension Scheme. Accordingly, an amount of £27 million after tax has been recognised in the condensed statement of consolidated comprehensive income in respect of actuarial losses attributable to the with-profit fund.

10. Liabilities under insurance contracts – assumptions

Valuation of participating insurance and investment contracts

For participating business, which is with-profit business (insurance and investment contracts), the insurance contract liability is calculated in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability as required by FRS 27 'Life Assurance'. This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

Valuation of non participating insurance contracts

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

Process used to determine assumptions

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

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

During the period, a number of changes were made to assumptions to reflect changes in expected experience or to harmonise the approach across the enlarged Group. The impacts of material changes during the period were as follows:

	Increase/ (decrease) in insurance liabilities 30 Jun 2010 £m	Increase/ (decrease) in insurance liabilities 30 Jun 2009 £m	Increase/ (decrease) in insurance liabilities 31 Dec 2009 £m
Change in longevity assumptions	**–**	–	(73)
Change in persistency assumptions	**13**	–	94

11. Borrowings

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
Carrying value			
Debenture loans			
Limited recourse bonds 2012 7.39%	**46**	–	48
Limited recourse bonds 2022 7.59%	**83**	–	86
Unsecured loan notes	**14**	–	18
£200 million 7.25% unsecured subordinated loans	**123**	–	119
£779 million loan	**748**	–	764
£15 million loan	**11**	–	15
£2,260 million syndicated loan	**2,238**	–	2,260
£80 million facility agreement	**42**	–	42
£100 million PIK notes and facility	**104**	–	102
£75 million secured loan note	**70**	–	70
£425 million syndicated loan	**399**	–	399
£4 million loan	**4**	–	–
	3,882	–	3,923
Abbey National Property Investments refinancing loan	**253**	–	258
	4,135	–	4,181

On 13 April 2010, a voluntary prepayment of £22 million was made on the £2,260 million syndicated loan.

12. Fair value hierarchy

12.1. Fair value hierarchy of financial instruments measured at fair value

At 30 June 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivative assets	**90**	**3,102**	**66**	**3,258**
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	**10,388**	**21**	**888**	**11,297**
Fixed and variable rate securities	**34,671**	**2,860**	**643**	**38,174**
Collective investment schemes	**5,098**	**900**	**569**	**6,567**
	50,157	**3,781**	**2,100**	**56,038**
Total financial assets at fair value	**50,247**	**6,883**	**2,166**	**59,296**
Financial liabilities at fair value				
Derivative liabilities	**41**	**2,232**	**–**	**2,273**
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	**–**	**7,969**	**–**	**7,969**
Borrowings	**–**	**253**	**–**	**253**
Net asset value attributable to unit holders	**966**	**–**	**168**	**1,134**
	966	**8,222**	**168**	**9,356**
Total financial liabilities at fair value	**1,007**	**10,454**	**168**	**11,629**

At 31 December 2009	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivative assets	1,312	2,228	–	3,540
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	11,012	645	1,494	13,151
Fixed and variable rate securities	33,672	3,167	819	37,658
Collective investment schemes	5,859	–	235	6,094
	50,543	3,812	2,548	56,903
Total financial assets at fair value	51,855	6,040	2,548	60,443
Financial liabilities at fair value				
Derivative liabilities	1,297	1,545	–	2,842
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	–	8,570	–	8,570
Borrowings	–	258	–	258
Net asset value attributable to unit holders	792	–	154	946
	792	8,828	154	9,774
Total financial liabilities at fair value	2,089	10,373	154	12,616

At 30 June 2009

All of the Groups financial assets and liabilities at fair value at 30 June 2009 were designated at fair value through profit or loss upon initial recognition and categorised as Level 1 financial instruments.

12.2. Movement in Level 3 financial instruments measured at fair value

	At 1 Jan 2010 £m	Total gains/ (losses) in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 30 Jun 2010 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets at fair value through profit or loss – held for trading						
Derivative assets	**–**	**(21)**	**87**	**–**	**66**	**(201)**
Financial assets designated at fair value through profit or loss upon initial recognition						
Equities	**1,494**	**103**	**(476)**	**(233)**	**888**	**72**
Fixed and variable rate securities	**819**	**(41)**	**(53)**	**(82)**	**643**	**(37)**
Collective investment schemes	**235**	**81**	**442**	**(189)**	**569**	**33**
	2,548	**122**	**–**	**(504)**	**2,166**	**(133)**

	At 1 Jan 2010 £m	Total (gains)/ losses in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 30 Jun 2010 £m	Unrealised (gains)/ losses on assets held at end of period £m
Financial liabilities designated at fair value through profit or loss upon initial recognition						
Net asset value attributable to unit holders	**154**	**14**	**–**	**–**	**168**	**43**
	154	**14**	**–**	**–**	**168**	**43**

	At 1 Jan and 30 Jun 2009 £m	Arising on acquisition of the Pearl businesses £m	Total gains/ (losses) in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 31 Dec 2009 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets designated at fair value through profit or loss upon initial recognition							
Equities	**–**	**1,513**	**2**	**(25)**	**4**	**1,494**	**29**
Fixed and variable rate securities	**–**	**839**	**(18)**	**80**	**(82)**	**819**	**(18)**
Collective investment schemes	**–**	**259**	**40**	**(64)**	**–**	**235**	**37**
	–	**2,611**	**24**	**(9)**	**(78)**	**2,548**	**48**

	At 1 Jan and 30 Jun 2009 £m	Arising on acquisition of the Pearl businesses £m	Total (gains)/ losses in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 31 Dec 2009 £m	Unrealised (gains)/ losses on liabilities held at end of period £m
Financial liabilities designated at fair value through profit or loss upon initial recognition							
Net asset value attributable to unitholders	**–**	**170**	**8**	**(24)**	**–**	**154**	**29**
	–	**170**	**8**	**(24)**	**–**	**154**	**29**

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

13. Cash flows from operating activities

	Half year ended 30 Jun 2010 £m	Half year ended 30 Jun 2009 £m	Half year ended 31 Dec 2009 £m
Profit/(loss) for the period before tax	**196**	(37)	91
Non-cash movements in profit/(loss) for the period before tax			
Fair value (gains)/losses on:			
Investment property	**(62)**	–	(159)
Financial assets	**(539)**	–	354
Fair value (losses)/gains on:			
Borrowings	**(15)**	–	32
Depreciation of property, plant and equipment	**1**	–	2
Amortisation of intangible assets	**83**	–	57
Change in present value of future profit	**–**	–	(4)
Change in unallocated surplus	**(6)**	–	175
Change in deposit received from reinsurers	**1**	–	(25)
Interest income on trust account	**–**	(1)	(2)
Interest expense on borrowings	**123**	–	87
Share-based payment charge	**1**	1	5
Net expected return on pension assets	**10**	–	9
Foreign currency exchange gains	**–**	–	(1)
Decrease in investment assets	**1,377**	–	487
Increase in reinsurance assets	**(74)**	–	(160)
Decrease in insurance contract and investment contract liabilities	**(934)**	–	(951)
Net increase in working capital	**542**	37	(354)
Cash generated/(absorbed) by operations	**704**	–	(357)

14. Related party transactions

The nature of the related party transactions of the Group has not changed from those referred to in the Group's consolidated financial statements for the year ended 31 December 2009.

There were no other transactions with related parties during the six months ended 30 June 2010 which have had a material effect on the results or financial position of the Group.

15. Contingent liabilities

Following a previous acquisition by the Pearl businesses, the shares in Phoenix Life Limited and certain loans were transferred from the non-profit fund to the shareholder fund of PA (GI) Limited at their admissible regulatory value. HM Revenue & Customs ("HMRC") had challenged the tax treatment of these transfers in the year ended 31 December 2004 and litigation was anticipated in 2010. During the period HMRC have confirmed that they will not pursue litigation.

London Life Limited has provided information to the Financial Services Authority on its categorisation of working capital to owner funds in 2006. The Directors are confident in this treatment, which is supported by legal and actuarial advice but note that the Financial Services Authority have not concluded their review into the matter and therefore a contingent liability of £20 million exists if London Life Limited were required to transfer this working capital back to policyholder funds.

16.Events after the reporting period

On 5 July 2010, the Company's Standard Listing on the London Stock Exchange was upgraded to a Premium Listing. In connection with the Premium Listing, the Company converted all 52,032,123 of its issued and fully paid 'B' ordinary shares into ordinary shares by way of a variation of rights and redesignation on a one-for-one basis.

Also on 5 July 2010, the Company completed the restructuring of the contingent rights over its shares as follows:

- the Company issued to each holder of contingent rights over shares nine ordinary shares for every ten ordinary shares that such holder would have received on crystallisation of the contingent rights over shares. 32,400,000 contingent rights over shares in issue were therefore converted into the same number of ordinary shares; and
- the holders of the contingent rights over shares shall have the right to receive a further 3,600,000 ordinary shares in aggregate if any party or parties acting in concert obtain more than 50% of the ordinary shares of the Company or an event occurs which has an equivalent effect or the Company disposes of substantially all of its assets within three years of the occurrence of the Premium Listing.

MCEV SUPPLEMENTARY INFORMATION

- **Statement of Directors' responsibilities**
- **Auditor's review report**
- **MCEV interim financial statements and notes**

Statement of Directors' responsibilities

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

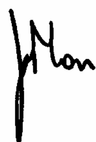
The MCEV methodology adopted by the Group is in accordance with these MCEV principles except that:

- risk-free rates have been defined as the annually compounded UK government bond nominal spot curve plus ten basis points rather than as the swap rate curve;
- the value of 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.



Jonathan Moss
Group Chief Executive

Jonathan Yates
Group Finance Director

St Helier
26 August 2010

Auditor's review report

Independent review report to the Directors of Phoenix Group Holdings on the Consolidated Phoenix Group Market Consistent Embedded Value (MCEV)

Introduction
We have been engaged by the Company to review the Consolidated Phoenix Group Holdings MCEV in the Interim Report for the half year ended 30 June 2010 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 and the related notes 1 to 7 on pages 57 to 70. 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 MCEV.

Ernst & Young Accountants LLP have reported separately on the condensed consolidated financial statements of Phoenix Group Holdings for the half year ended 30 June 2010. 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.

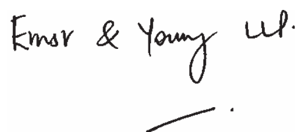
This report is made solely to the Company's Directors in accordance with the guidance contained in International Standards on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for 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 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Phoenix Group MCEV supplementary information in accordance with the basis of preparation set out on pages 61 to 64.

Our responsibility
Our responsibilities for the Phoenix Group Holdings MCEV are set out in our engagement letter with you dated 26 March 2010. 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 61 to 64.

Scope of review
We conducted our review in accordance with International Standards on Review Engagements (UK and Ireland) 2410. A review of interim financial information consists of making enquiries, primarily of the 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 & 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 to cause us to believe that the Phoenix Group Holdings MCEV in the Interim Report for the half year ended 30 June 2010 has not been prepared, in all material respects, in accordance with the basis of preparation as set out on pages 61 to 64.



Ernst & Young LLP
London
26 August 2010

MCEV interim financial statements and notes

Summarised consolidated income statement – Group MCEV basis

For the half year ended 30 June 2010

	Half year ended 30 Jun 2010 £m	Pro forma Half year ended 30 Jun 2009 £m	Pro forma Year ended 31 Dec 2009 £m
Life MCEV operating earnings/(loss)	**304**	(22)	380
Management services operating profit/(loss)	**7**	(7)	14
Ignis Asset Management operating profit	**22**	16	34
Corporate costs	**(33)**	(18)	(54)
Group MCEV operating earnings/(loss) before tax[1]	**300**	(31)	374
Economic variances on covered business[1]	**106**	(35)	701
Economic variances on non-covered business	**(14)**	(46)	(245)
Non-recurring items	**(22)**	(62)	(78)
Gain on debt refinancing	**–**	–	491
Finance costs attributable to owners	**(81)**	(125)	(390)
Group MCEV earnings/(loss) before tax	**289**	(299)	853
Tax (charge)/credit on operating earnings/loss	**(84)**	9	(105)
Tax (charge)/credit on non-operating earnings/loss	**(13)**	14	(197)
Total tax	**(97)**	23	(302)
Group MCEV earnings/(loss)	**192**	(276)	551

1 The Group has moved to calculating the expected contribution on existing business using longer term expectations of investment returns. The pro forma 'Group MCEV operating earnings/(loss) before tax' and 'Economic variances on covered business' before tax would have been positive £51 million and negative £117 million respectively for the half year ended 30 June 2009 (positive £538 million and £537 million respectively for the year ended 31 December 2009) if the expected contribution had been calculated using longer term rates of return

MCEV earnings per ordinary share

For the half year ended 30 June 2010

	Half year ended 30 Jun 2010	Pro forma Year ended 31 Dec 2009
Group MCEV operating earnings after tax		
Basic[1]	**163.4p**	291.5p
Diluted[2]	**163.4p**	254.4p
Group MCEV earnings after tax		
Basic[1]	**145.2p**	597.2p
Diluted[2]	**145.2p**	521.1p

1 Based on 132 million shares (full year 2009: 92 million) as set out in note 5 of the IFRS condensed consolidated interim financial statements
2 Based on 132 million shares (full year 2009: 105 million), allowing for warrants in issue as set out in note 5 of the IFRS condensed consolidated interim financial statements

The earnings on covered business are calculated on a post-tax basis and are grossed up at the effective rate of shareholder tax for presentation in the income statement. The tax rate used is the UK corporate tax rate of 28 percent.

Statement of consolidated comprehensive income – Group MCEV basis
For the half year ended 30 June 2010

	Half year ended 30 Jun 2010 £m	Pro forma Half year ended 30 Jun 2009 £m	Pro forma Year ended 31 Dec 2009 £m
Group MCEV earnings/(loss) for the period after tax	**192**	(276)	551
Other comprehensive income			
Actuarial (losses)/gains on defined benefit pension schemes	**(45)**	15	(14)
Exchange differences on translating foreign operations	**–**	(70)	(44)
	(45)	(55)	(58)
Total comprehensive income/(loss) for the period	**147**	(331)	493

Reconciliation of movement in equity – Group MCEV basis
For the half year ended 30 June 2010

	Half year ended 30 Jun 2010 £m	Pro forma Half year ended 30 Jun 2009 £m	Pro forma Year ended 31 Dec 2009 £m
Opening Group MCEV equity	**1,827**	1,044	1,044
Total comprehensive income/(loss) for the period	**147**	(331)	493
Issue of share capital	**–**	–	275
Conversion of warrants into ordinary shares	**7**	–	51
Redemption of shares	**–**	–	(41)
Credit to equity for equity-settled share-based payments	**1**	–	5
Dividends paid on ordinary shares	**(20)**	–	–
Closing Group MCEV equity	**1,962**	713	1,827

Group MCEV analysis of earnings
For the half year ended 30 June 2010

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset management IFRS £m	Corporate[1] IFRS £m	Group MCEV £m
Group MCEV at 1 January 2010	**4,731**	**56**	**39**	**(2,999)**	**1,827**
Operating MCEV earnings/(loss) (post-taxation)	**219**	**5**	**16**	**(24)**	**216**
Non-operating MCEV earnings/(loss) (post-taxation)	**85**	**(16)**	**–**	**(93)**	**(24)**
Total MCEV earnings	**304**	**(11)**	**16**	**(117)**	**192**
Foreign exchange	**–**	**–**	**–**	**–**	**–**
Other movements	**–**	**–**	**–**	**(45)**	**(45)**
Capital and dividend flows – internal[2]	**(570)**	**16**	**(2)**	**556**	**–**
Capital and dividend flows – external	**–**	**–**	**–**	**(12)**	**(12)**
Closing value at 30 June 2010	**4,465**	**61**	**53**	**(2,617)**	**1,962**

1 Comprises the Group holding companies that do not form part of the Phoenix Life and Ignis Asset Management divisions
2 Includes a re-allocation of a £250m loan asset from Covered business to Corporate. This does not affect the closing Group MCEV or MCEV earnings

For the half year ended 30 June 2009 (pro forma)

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management IFRS £m	Corporate[1] IFRS £m	Group MCEV £m
Group MCEV at 1 January 2009	4,081	122	34	(3,193)	1,044
Operating MCEV (loss)/earnings (post-taxation)	(16)	(5)	11	(12)	(22)
Non-operating MCEV loss (post-taxation)	(38)	(9)	(2)	(205)	(254)
Total MCEV earnings	(54)	(14)	9	(217)	(276)
Foreign exchange	–	–	–	(70)	(70)
Other movements	–	–	–	15	15
Capital and dividend flows – internal	(144)	(26)	(5)	175	–
Capital and dividend flows – external	–	–	–	–	–
Closing value at 30 June 2009	3,883	82	38	(3,290)	713

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

For the year ended 31 December 2009 (pro forma)

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management IFRS £m	Corporate[1] IFRS £m	Group MCEV £m
Group MCEV at 1 January 2009	4,081	122	34	(3,193)	1,044
Operating MCEV earnings/(loss) (post-taxation)	273	10	24	(38)	269
Non-operating MCEV earnings/(loss) (post-taxation)	511	(25)	(4)	(200)	282
Total MCEV earnings	784	(15)	20	(238)	551
Foreign exchange	–	–	–	(44)	(44)
Other movements	–	–	–	(14)	(14)
Capital and dividend flows – internal	(134)	(51)	(15)	200	–
Capital and dividend flows – external	–	–	–	290	290
Closing value at 31 December 2009	4,731	56	39	(2,999)	1,827

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

Reconciliation of Group IFRS equity to MCEV net worth

	30 Jun 2010 £m	31 Dec 2009 £m
Group net assets attributable to owners of the parent as reported under IFRS	**1,682**	1,412
Goodwill and other intangibles in accordance with IFRS (after tax)	**(395)**	(413)
Value of in-force business in accordance with IFRS (after tax)	**(1,377)**	(1,419)
Adjustments to IFRS reserving	**(120)**	(98)
Tax adjustments	**(124)**	(99)
Revalue listed debt to market value	**138**	235
Eliminate value of contingent loan asset[1]	**(251)**	(194)
Fair value adjustments[2]	**(15)**	(40)
Eliminate pension scheme surplus[3] (after tax)	**(135)**	(45)
Other adjustments	**3**	(9)
MCEV net worth attributable to owners of the parent	**(594)**	(670)

1 Removal of value attributed to contingent loans issued by holding companies to long-term funds as their expected repayments are captured within the MCEV VIF calculations
2 Investments carried at amortised cost under IFRS are revalued at market value
3 The pension scheme surplus removed is the economic surplus of the PGL scheme and contributions from the life companies in respect of actuarial losses not yet paid into the scheme, net of tax

Notes to the MCEV interim financial statements
1. Basis of preparation

Overview
The supplementary information on pages 57 to 70 has been prepared on a Market Consistent Embedded Value ("MCEV") basis except for the items described further below.

The asset management and management service businesses are included in the Group MCEV at the value of IFRS net assets and do not include the future earnings from their existing business. This is because, in the opinion of the Directors, applying the CFO Forum MCEV principles and guidance to these businesses would not provide a fair reflection of the Group's financial position.

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

- risk-free rates have been defined as the annually compounded UK government nominal spot curve plus ten 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 focussed 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 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.

Whilst the IFRS consolidated financial statements consolidate the results of the Pearl businesses for the period from acquisition on 28 August 2009, the MCEV treats the Pearl businesses as having been acquired on 1 January 2009. For this reason the results for the half year ended 30 June 2009 and year ended 31 December 2009 are referred to as pro forma.

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' shareholder funds to holding companies have been consolidated out such that they do not appear as an asset in the life company nor 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 value of in-force covered business consists of the following components:

- present value of future profits;
- time value of financial options and guarantees; and
- frictional costs of required capital.

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

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

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

Present value of future profits ("PVFP")

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

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

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

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

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

For the Group, required capital is defined as the greater of:

- the amount of capital required to meet the FSA capital adequacy requirements, consisting of the greater of Pillar 1 and Pillar 2 capital requirements where:
  - under Pillar 1, the life companies are required to maintain excess capital in excess of policy liabilities calculated using a basis specified by the FSA; and
  - under Pillar 2, the life companies are required to carry out and submit their own assessment of capital requirements by assessing the major risks they are running and the capital they need to ensure that they remain able to meet their liabilities to policyholders in all but the most extreme circumstances;
- the capital required under the Group's capital management policy.

On this basis the required capital measure is 120 percent (31 December 2009: 125 percent) of the solvency capital at which the regulator is empowered to take action.

Solvency II will introduce a new capital regime for insurers during 2012. These disclosures do not take account of the impact of the change in regime as this is still under development.

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

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

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

For with-profits business the CNHR would increase the TVFOGs by £64 million (31 December 2009: £93 million).

For other business the cost would be £137 million ((31 December 2009: £141 million). This equates to an equivalent average cost of capital charge of 1.5 percent (31 December 2009: 1.6 percent). The level of capital assumed in this calculation is determined based on a 99.5 percent confidence level over a one 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 Securitised Bonds are backed by surpluses that are expected to emerge on blocks of its unit-linked and unitised with-profits business. This securitisation has been valued on a cash-flow basis, allowing for payments expected to be due based on the projected level of securitised surpluses emerging. The full VIF of the securitised unit-linked and unitised with-profits business is expected to be payable to bondholders; therefore, no additional value accrues to the embedded value.

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

d) Taxation

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

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

The Group MCEV has been calculated based on the current corporation tax rate of 28% and the current VAT rate of 17.5%.

The Group MCEV is not expected to be materially affected by the announced reduction in corporation tax from 28% to 24% and the increase in VAT from 17.5% to 20%

e) New business

The MCEV places a value on the profits expected to be earned on annuities arising from policies vesting with guaranteed annuity terms. These policies are excluded from the definition of new business on the basis that the annuity being provided is an obligation under an existing policy and the life companies are already reserving for the cost of these guarantees.

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

f) Participating business

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

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

2. Components of the MCEV of covered business

	30 Jun 2010 £m	Pro forma 30 Jun 2009 £m	31 Dec 2009 £m	Pro forma 31 Dec 2008 £m
Net worth	**1,909**	1,773	2,234	1,816
PVFP	**2,882**	2,568	2,864	2,680
TVFOG	**(97)**	(192)	(97)	(206)
COC	**(229)**	(266)	(270)	(209)
	4,465	3,883	4,731	4,081

The net worth of covered business of £1,909 million at 30 June 2010 consists of £534 million of free surplus (31 December 2009: £408 million) in excess of required capital.

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

	Half year ended 30 Jun 2010		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2010	**2,234**	**2,497**	**4,731**
New business value	**8**	**3**	**11**
Expected existing business contribution (reference rate)	**51**	**59**	**110**
Expected existing business contribution (in excess of reference rate)	**15**	**25**	**40**
Transfer from VIF and required capital to free surplus	**88**	**(88)**	**–**
Experience variances	**58**	**16**	**74**
Assumption changes	**(10)**	**(2)**	**(12)**
Other operating variances	**(24)**	**20**	**(4)**
Operating Life MCEV earnings	**186**	**33**	**219**
Economic variances	**82**	**(6)**	**76**
Other non-operating variances	**(23)**	**32**	**9**
Total Life MCEV earnings	**245**	**59**	**304**
Capital and dividend flows	**(570)**	**–**	**(570)**
Life MCEV at 30 June 2010	**1,909**	**2,556**	**4,465**

	Half year ended 30 Jun 2009 (pro forma)		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2009	1,816	2,265	4,081
New business value	1	10	11
Expected existing business contribution (reference rate)	19	10	29
Expected existing business contribution (in excess of reference rate)	5	13	18
Transfer from VIF and required capital to free surplus	94	(94)	–
Experience variances	(12)	(71)	(83)
Assumption changes	(2)	(4)	(6)
Other operating variances	(13)	28	15
Operating Life MCEV earnings/(loss)	92	(108)	(16)
Economic variances	19	(45)	(26)
Other non-operating variances	(24)	12	(12)
Total Life MCEV earnings/(loss)	87	(141)	(54)
Capital and dividend flows	(130)	(14)	(144)
Life MCEV at 30 June 2009	1,773	2,110	3,883

	Year ended 31 Dec 2009 (pro forma)		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2009	1,816	2,265	4,081
New business value	18	4	22
Expected existing business contribution (reference rate)	32	27	59
Expected existing business contribution (in excess of reference rate)	10	26	36
Transfer from VIF and required capital to free surplus	181	(181)	–
Experience variances	51	11	62
Assumption changes	165	(92)	73
Other operating variances	(14)	35	21
Operating Life MCEV earnings/(loss)	443	(170)	273
Economic variances	66	438	504
Other non-operating variances	12	(5)	7
Total Life MCEV earnings	521	263	784
Capital and dividend flows	(103)	(31)	(134)
Life MCEV at 31 December 2009	2,234	2,497	4,731

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

New business	Premium £m	MCEV £m	MCEV/Premium %
Half year ended 30 Jun 2010	**211**	**11**	**5%**
Half year ended 30 Jun 2009 (pro forma)	209	11	5%
Year ended 31 Dec 2009 (pro forma)	401	22	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.

	Years					
Present value of future profits (PVFP)	1-5 £m	6-10 £m	11-15 £m	16-20 £m	20+ £m	Total £m
30 Jun 2010	**930**	**791**	**539**	**301**	**321**	**2,882**

6. Economic assumptions

Reference Rates

(a) Risk-free rates

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

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

	30 Jun 2010		30 Jun 2009		31 Dec 2009	
Term	**Gilt Yield +10 bps**	**Swap Yield**	Gilt Yield +10 bps	Swap Yield	Gilt Yield +10 bps	Swap Yield
1 year	**0.71%**	**1.12%**	1.20%	–	0.97%	1.02%
5 years	**2.36%**	**2.48%**	3.06%	–	3.13%	3.49%
10 years	**3.70%**	**3.55%**	3.92%	–	4.35%	4.27%
15 years	**4.35%**	**3.97%**	4.45%	–	4.80%	4.55%
20 years	**4.59%**	**4.07%**	4.75%	–	4.86%	4.55%

The swap yields above are only applicable to sensitivity (12) as disclosed in note 7. Swap yields have not been supplied for 30 June 2009 as sensitivities have not been disclosed at this date.

(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 Jun 2010	30 Jun 2009	31 Dec 2009	31 Dec 2008
Additional yield over risk-free rates	**0.35%**	0.70%	0.30%	0.70%

Inflation

For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index (“RPI”) as at 30 June 2010 was taken from the implied inflation curve at a term appropriate to the liabilities. The rate of increase in UK National Average Earnings inflation is assumed to be RPI + 100 basis points as at 30 June 2010 (31 December 2009: 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 2010. 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 ten basis points, consistent with the deterministic projections. Interest rate volatility is calibrated to swaption implied volatilities, as per the sample below.

Interest rate volatility

	Option term (years)					
30 Jun 2010 Swap term (years)	**5**	**10**	**15**	**20**	**25**	**30**
5	**17.0%**	**12.3%**	**12.8%**	**13.0%**	**13.0%**	**12.8%**
10	**15.3%**	**12.7%**	**12.9%**	**12.8%**	**12.7%**	**12.2%**
20	**14.8%**	**12.5%**	**12.3%**	**11.9%**	**11.5%**	**11.0%**
30	**14.1%**	**11.8%**	**11.4%**	**10.9%**	**10.5%**	**10.1%**

	Option term (years)					
30 Jun 2009 Swap term (years)	5	10	15	20	25	30
5	15.8%	11.6%	13.0%	14.0%	13.2%	11.9%
10	14.5%	12.2%	13.3%	13.5%	12.4%	11.3%
20	14.7%	12.2%	12.3%	11.8%	10.8%	9.7%
30	14.3%	11.1%	10.8%	10.1%	9.2%	8.4%

	Option term (years)					
31 Dec 2009 Swap term (years)	5	10	15	20	25	30
5	17.0%	13.1%	14.3%	15.1%	15.9%	15.4%
10	15.7%	13.8%	14.8%	15.4%	15.6%	14.7%
20	15.9%	14.1%	14.6%	14.4%	14.0%	13.0%
30	15.7%	13.6%	13.5%	13.0%	12.3%	11.5%

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

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

Term (years)		5	10	15	20	25	30
Equity implied volatility (ATM)	**30 Jun 2010**	**28.3%**	**29.2%**	**29.5%**	**29.7%**	**29.9%**	**29.9%**
	30 Jun 2009	27.6%	28.2%	27.9%	27.9%	27.9%	27.9%
	31 Dec 2009	25.3%	26.6%	27.3%	27.5%	27.6%	27.7%

Best estimate levels of volatility are assumed for directly held property. The model implied volatility for 30 June 2010 is 15 percent (31 December 2009: 15 percent).

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. In 2009 the expected contribution was calculated using a 1 year gilt forward rate plus the Group's long-term expectations of excess investment returns on equities, properties and bonds. From 2010, 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 has moved to calculating the expected contribution on existing business using a 15 year gilt rate at the beginning of the reporting period plus 10 basis points and long-term expectations of excess investment returns.

The table below sets outs the asset risk premiums used:

	Half year ended 30 Jun 2010	Half year ended 30 Jun 2009	Year ended 31 Dec 2009
Equities	**3.0%**	2.5%	2.5%
Property	**2.0%**	2.0%	2.0%
Gilts	**0.0%**	0.0%	0.0%

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

Expenses

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

The life companies' projected investment expenses are based on the fees agreed with Ignis Asset Management, (or external fund managers, where appropriate), allowing for current and projected future asset mixes.

Valuation of debt and non-controlling interests

The Group's condensed consolidated balance sheet as at 30 June 2010 includes Perpetual Reset Capital Securities with a face value of £425 million (31 December 2009: £500 million) and subordinated debt with a face value of £200 million in relation to Phoenix Life Limited (ex Scottish Mutual Assurance). 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 as at 30 June 2010.

	30 Jun 2010		30 Jun 2009		31 Dec 2009	
Listed debt and non-controlling interests	**Face value (including accrued interest)**	**Market value**	Face value (including accrued interest)	Market value	Face value (including accrued interest)	Market value
Perpetual Reset Capital Securities	**452**	**267**	528	110	540	264
Phoenix Life Limited subordinated debt	**215**	**163**	216	112	211	156

Unlisted debt has been included at face value.

Unlisted debt	**30 Jun 2010 Face value**	30 Jun 2009 Face value	31 Dec 2009 Face value
Pearl and Impala facilities	**2,738**	3,085	2,760
Royal London PIK note and facility	**104**	346	102

7. Sensitivity to assumptions

The table below summarises the key sensitivities of the MCEV of covered business at 30 June 2010:

		30 Jun 2010 Life MCEV £m
(1)	Base	**4,465**
(2)	1% decrease in risk-free rates	**188**
(3)	1% increase in risk-free rates	**(230)**
(4)	10% decrease in equity/property market values	**(148)**
(5)	100 bps increase in credit spreads[1]	**(311)**
(6)	25% increase in equity/property implied volatilities	**(31)**
(7)	25% increase in swaption implied volatilities	**(33)**
(8)	10% decrease in lapse rates and paid-up rates	**(19)**
(9)	5% decrease in annuitant mortality	**(171)**
(10)	5% decrease in non-annuitant mortality	**21**
(11)	Required capital equal to the minimum regulatory capital	**67**
(12)	Swap curve as reference rate, retaining appropriate liquidity premiums	**(312)**

1 44 bps is assumed to relate to default risk

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

ADDITIONAL INFORMATION

- **Shareholder information**

ADDITIONAL INFORMATION

Shareholder information

Annual General Meeting
Our Annual General Meeting was held on 23 June 2010.

The voting results for our 2010 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,
PO Box 329,
Queensway House,
Hilgrove Street,
St Helier,
Jersey JE4 9XY.

Shareholder helpline number – 0870 707 4040
Fax number – 0870 873 5851
Shareholder helpline email address – info@computershare.co.je

If you currently hold your shares on Euronext and wish to move your holding to London, please contact your broker/custodian to arrange this for you.

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

Group Financial Calendar for 2010

Announcement of unaudited six months' interim results	27 August 2010
Announcement of third quarter interim management statement	5 November 2010

Group Financial Calendar for 2011

Announcement of financial results for year ended 31 December 2010	29 March 2011
2010 final dividend payment date	15 April 2011
Announcement of first quarter interim management statement	16 May 2011
Announcement of unaudited six months' interim results	25 August 2011
Announcement of third quarter interim management statement	8 November 2011

2010 Interim Dividend

Scrip mandate forms issued	6 September 2010
Ex-dividend date	8 September 2010
Record date	10 September 2010
Scrip calculation period	8 – 14 September 2010
Scrip election date	24 September 2010
Interim 2010 dividend payment	15 October 2010

Our 2010 interim dividend will be announced on 27 August 2010 with the Group's interim results.

The Company will be offering a scrip dividend alternative. Shareholders will be sent an information booklet which will detail the terms of the scrip dividend alternative on or around 6 September 2010. The information booklet will also be made available on the Group's website, www.thephoenixgroup.com.

The information booklet will detail how shareholders may elect to take up a scrip dividend alternative. Such elections must be received by the Company's Registrars by 4pm on 24 September 2010.

Phoenix Group Holdings
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Cayman Islands Registrar of Companies number 202172

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