PHOENIX GROUP HOLDINGS

INTERIM REPORT 2011
FOR THE HALF YEAR ENDED 30 JUNE 2011

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GROUP CHIEF EXECUTIVE'S REPORT

Introduction

The 2011 interim report for Phoenix Group Holdings is my first as Chief Executive Officer.

Since joining Phoenix in February, I have been able to get to know my colleagues and to develop my understanding of the business and the opportunities open to us as well as the challenges that we face. Our objectives are to further develop and grow both our closed life platform and our asset management business, IGNIS. Success will simultaneously deliver improved outcomes for our customers and generate growing value and returns for our shareholders.

This is a journey, and my team and I are confident both in our capacity to deliver and in the strength of our business model.

Performance highlights

The Group set itself stretching objectives at the time of our Annual Results announcement in March and I am pleased to be able to report significant progress on many fronts. I believe that it is a fundamental requirement of any business that it articulates clearly what it intends to do and that it then reports objectively on what it has achieved.

Cash generation

Against a full year cash generation target of £750 million to £850 million, I am pleased to report that £496 million was delivered in the first half of the year. This demonstrates again the cash generative nature of our business and the ability of management action to accelerate cash generation. I am confident that we are on track to deliver within our target range for the full year.

MCEV

Against a full year target for incremental embedded value growth of £100 million from management actions, we have delivered £69 million. We are confident that we will achieve the remainder of our £100 million objective over the course of the second half of the year. MCEV increased by £125 million before capital movements and dividends to £2.2 billion as at 30 June, representing an annualised return on MCEV[1] of 12%.

Gearing

Against a full year target of lowering our gearing ratio to below 50%, I am pleased to say that we have already achieved our objective by reducing gearing to 48%. The ratio is expected to continue to improve through organic cash generation and embedded value management actions.

IGD surplus

Our financial strength remains robust with IGD surplus estimated at £1.1 billion at 30 June 2011, up from £1.0 billion at the end of December 2010. Headroom above our IGD capital policy is £0.3 billion, an increase of £0.2 billion since 31 December 2010, driven largely by simplifying our business through recapturing internal reinsurance and maximising capital efficiency.

An important measure for Phoenix is our IGD Excess Capital, which illustrates the combined shareholder and policyholder capital that is available to support commitments to our policyholders. This includes policyholder capital that is not included in the IGD surplus for closed fund groups and certain shareholder capital. IGD Excess Capital was estimated to be £2.9 billion at 30 June 2011(31 December 2010: £2.8 billion).

IFRS profits

In the first half of 2011, we delivered IFRS operating profits of £136 million, compared to £176 million in the first half of 2010. This reflects the impact of one-off positive experience variances that were recognised in the Phoenix Life operating profit in the first half of 2010 and further investment in IGNIS new business development and infrastructure.

[1] Annualised return on embedded value is calculated as annualised MCEV total comprehensive income after tax as a percentage of the opening MCEV.

Group assets under management

Group assets under management are £68.5 billion, compared to £69.6 billion at 31 December 2010, with investment growth of £1.6 billion and net third party sales of £0.8 billion being offset by the run off of life company assets and transfer of the administration of £1.0 billion of partnership funds to a third party.

Dividend

The Board has declared an interim dividend for the first 6 months of 2011 of 21 pence per share which will be paid on 7 October 2011. The dividend represents 50% of our stated annual dividend policy. We are also offering a scrip dividend option to our investors.

Phoenix Life review

In the first half of the year, Phoenix Life has made strong progress, including:

Fund mergers

In the first half of the year we successfully completed the transfer of the business of Phoenix & London Assurance Limited to Phoenix Life Limited and we have received the necessary assurances from the FSA to commence work on our next phase of fund mergers. This is the bread and butter of our business. In 2008 we had nine UK life companies within Phoenix Life – we now have five. When the current phase of work is complete, which is subject to court approval, we expect to have two main life companies and both will carry the Phoenix Life brand.

Solvency II

Preparations for Solvency II are naturally a high priority and our plans are on track. Although we believe that the introduction of Solvency II could be delayed to 2014, we continue to target full Solvency II readiness by the end of 2012.

Our Internal Model Self Assessment Template has been approved by the FSA and we are on track to meet the Internal Model Application Process date of 1 April 2012.

Customers

While our research shows us that customers consistently score our service as very good we are always aiming to improve. In particular, we are seeking to speed up life assurance claims payments by reducing the paperwork involved. We are also working to simplify letters to customers: in addition to the six million annual statements that we send, we also send twenty thousand responses to customer enquiries each week, so the impact of better communications is substantial.

We have been concentrating on continued improvement in our service and are pleased to have seen complaint volumes fall by over 20%.

IGNIS review

IGNIS is a core element of our business model and we believe that the investment we are making in developing that business will add considerably to shareholder value. In the first half of 2011 we have made further additions in investment management, distribution and infrastructure to support improved performance and future growth in assets under management. IGNIS IFRS operating profits for the first half of 2011 were £18 million compared to £22 million in the first half of 2010.

In 2010 a greater performance fee element was introduced to the Investment Management Agreements between Phoenix Life and IGNIS, and the resulting fees will mainly be recognised in the second half of the calendar year. We remain confident in the ability of IGNIS to deliver strong performance and that this will be a driver for profit growth in the future.

IGNIS assets under management, advice and administration as at 30 June 2011, excluding stock lending collateral of £9.5 billion (31 December 2010: £9.2 billion), amounted to £67.2 billion compared to £68.9 billion at 31 December 2010.

Net new third party business in the first half amounted to £0.8 billion, in line with the first half of 2010, reflecting strong sales of liquidity and real estate products as well as a further £0.4 billion mandate from the PGL Pension Scheme.

Business model and strategy

Over the last six months, I have had the opportunity to review our business model and strategy with my colleagues and with the Board. Our business model, integrating our specialist closed life fund expertise with in-house asset management capability is both attractive and powerful. Our strategy is characterised by outsourcing to maintain a sustainable cost base as the existing life books run off; growing our asset management strength and scale; and maximising the synergies of operating a large number of closed life funds. As such, the implementation of our strategy will be evolutionary rather than revolutionary.

Banks

We continue to explore options with our lenders regarding the best structure and timing for the restructuring of our banking facilities. Our objective is to re-finance our debt so as to extend the maturity profile and to improve the flexibility of our debt financing. As a part of that process we will continue to reduce balance sheet gearing through repayments of capital from the Group's organic cash flows.

Acquisitions

We continue to see opportunity for growth through acquisition in the UK market place for many years to come. However, for the moment, our focus is on managing our existing business to deliver the actions which will meet the embedded value and cash flow targets that we have set.

Outlook

Market

We have made good progress in the first half of the year and we are on track to deliver the targets we set for 2011. Economic conditions remain uncertain but we are confident in our business model and strategy to deliver value to all our stakeholders.

Whilst recent market volatility has been extreme, the Group's cash flow and IGD positions have remained resilient as a result of the effective and careful management of risk and market exposure within our business.

Business Platform

We will make further progress in the development of a low cost platform for the operation of closed life funds. This will deliver better service and better returns to policyholders, accelerate cash flows and enhance MCEV. We will continue to invest in the development of IGNIS, to ensure that we generate risk optimised returns for both policyholder and shareholder funds.

Targets

- I am confident that we will achieve operating cash flows within our target range of £750 million to £850 million.
- I am confident that we will meet our £100 million target for incremental embedded value growth from management actions.
- We have achieved our full year target to bring gearing down to below 50%, and we will continue to reduce our borrowings over the course of the year.

We look forward to reporting on further strong progress at the time of our Q3 Interim Management Statement in November.

Clive Bannister
Group Chief Executive
24 August 2011

GROUP PERFORMANCE

Key performance indicators

Operating companies' cash generation	£496 million (HY10: £335 million)

Cash generation has remained strong in the period at £496 million demonstrating the strength of the Group's business model. Management actions have generated cash flows of £197 million and the Group is on track to meet its full year cash generation target of £750 million to £850 million for 2011.

The Phoenix Life free surplus was £468 million at 30 June 2011, despite cash distributions of £481 million to the Holding Companies, due to free surplus generation of £199 million in the period.

Group MCEV	£2,203 million (31 December 2010: £2,104 million)

Group MCEV increased by £99 million to £2,203 million at 30 June 2011, primarily due to management actions of £69 million. The Group is on track to achieve the £31 million remaining of its 2011 management actions target.

Group IFRS operating profit	£136 million (HY10: £176 million)

Group IFRS operating profit was £136 million. Phoenix Life's operating profit was lower at £152 million (HY10: £182 million) due to lower margins and the non-recurrence of positive experience variances recognised in 2010.

Asset management IFRS operating profit	£18 million (HY10: £22 million)

IGNIS's IFRS operating profit of £18 million was down £4 million on HY10, and reflects the costs of investment in new business development, partly offset by an increase in fees earned on managing stock lending collateral and growth in third party revenues.

Group assets under management	£68.5 billion (31 December 2010: £69.6 billion)

Group assets under management reduced by £1.1 billion following the transfer of £1.0 billion of assets in respect of the HEXAM partnership from IGNIS's administration and the run off of the closed life funds partly offset by net third party sales of £0.8 billion and positive market movements.

The definition of Group assets under management now includes life company funds managed by third parties and Holding Company cash. Of the Group assets under management, IGNIS manages or administers £52.8 billion of internal funds (31 December 2010: £53.8 billion), and £7.4 billion of external funds (31 December 2010: £7.5 billion) and provides advice on £7.0 billion of internal funds (31 December 2010: £7.6 billion).

IGD capital surplus (estimated)	£1.1 billion (31 December 2010: £1.0 billion)

The estimated IGD surplus has increased to £1.1 billion with capital generation of £0.3 billion offsetting dividend and debt financing costs and repayments of £0.2 billion. Headroom over the Group's capital policy has increased to £0.3 billion (31 December 2010: £0.1 billion).

The IGD surplus remains relatively insensitive to market movements.

IGD Excess Capital (estimated)	£2.9 billion (31 December 2010: £2.8 billion)

The estimated IGD Excess Capital remains robust at £2.9 billion. IGD Excess Capital includes the total capital available to the Group (both policyholder and shareholder) in excess of capital requirements.

Gearing ratio	£48% (31 December 2010: 52%)

Gearing has reduced by 4% to 48% driven by debt repayments, strong cash generation and an increase in the MCEV. The Group has already met its target of reducing gearing to below 50% by the end of 2011 and the ratio is expected to continue to decline through organic cash generation and embedded value management actions.

Interim dividend per share	21 pence per share (HY10: 21 pence per share)

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

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

Cash generation

Holding Companies' cash flows

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

The following analysis of cash flows reflects the cash paid by the operating subsidiaries to the Group's Holding Companies, as well as the uses of these cash receipts.

Holding Companies' cash flows	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Cash and cash equivalents at start of period	**486**	202
Cash receipts[1]	**496**	335
Uses of cash		
Recurring cash outflows		
Other operating expenses	**(28)**	(15)
Pension scheme contributions	**(5)**	(3)
Debt interest	**(77)**	(76)
Total recurring cash outflows	**(110)**	(94)
Non-recurring cash outflows	**(15)**	(59)
Uses of cash before debt repayments and shareholder dividend	**(125)**	(153)
Debt repayment	**(108)**	(22)
Shareholder dividend	**(29)**	(20)
Cash and cash equivalents at end of period[2]	**720**	342

1 Includes amounts received by the Holding Companies in respect of Group relief.

2 Closing balance at 30 June 2011 includes required prudential cash buffer of £150 million (30 June 2010: £150 million).

Cash receipts

Cash remitted by Phoenix Life increased by £155 million to £481 million (HY10: £326 million) reflecting the benefit of management actions and strong free surplus generation. Cash flows from management actions of £197 million (HY10: £30 million) primarily related to the restructuring of a portfolio of corporate loans and other derisking activities. IGNIS remitted cash of £15 million, up from £9 million in the first half of 2010.

Phoenix Life free surplus

The generation of free surplus, net of movements in required capital, underpins the cash remittances from Phoenix Life. The table below analyses the movement in free surplus of Phoenix Life which represents the life companies' free surplus[i] plus the IFRS net assets of the management service companies, these being available for distribution to the Holding Companies.

Phoenix Life free surplus movement	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Opening free surplus	**750**	464
Cash distributed to Holding Companies	**(481)**	(326)
IFRS operating profit (net of tax)	**141**	180
IFRS investment variances and non-recurring items	**54**	160
Movements in capital requirement and policy	**79**	160
Valuation differences and other[1]	**(75)**	(43)
Closing free surplus	**468**	595

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

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

Uses of cash

Recurring cash outflows
Operating expenses of £28 million (HY10: £15 million) increased primarily due to the reallocation of corporate costs from the operating companies to Group. The remaining recurring cash outflows were in line with the 2010 half year results. Pension scheme contributions under existing agreements are mainly paid in the second half of the year.

Non-recurring cash outflows
Non-recurring cash outflows of £15 million were significantly lower than the first half of 2010 (HY10: £59 million) reflecting reduced investment in the Group's transformation programmes with its outsourcers which are nearing completion and the non-recurrence of certain costs related to the Group's Premium Listing in 2010.

Debt repayments and shareholder dividend
A £21 million voluntary debt prepayment and scheduled repayments of £87 million[i] in respect of the Group's main credit facilities were made in the first half of 2011.

The shareholder dividend paid, net of scrip of £7 million, was £29 million.

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

MCEV

Group MCEV earnings[i]

The Group generated MCEV operating earnings after tax of £153 million for the period, a decrease of £63 million on 2010.

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Life MCEV operating earnings[1]	**229**	304
Management services operating profit	**10**	7
IGNIS Asset Management operating profit	**18**	22
Group costs	**(48)**	(33)
Group MCEV operating earnings before tax	**209**	300
Tax charge on operating earnings	**(56)**	(84)
Group MCEV operating earnings after tax	**153**	216
Economic variances on covered[2] business	**(5)**	106
Economic variances on non-covered business	**(5)**	(14)
Other non-operating variances on covered business	**(1)**	12
Non-recurring items on non-covered business	**18**	(34)
Finance costs attributable to owners	**(75)**	(81)
Tax on non-operating earnings	**27**	(13)
Group MCEV earnings after tax	**112**	192

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 £229 million (HY10: £304 million) are therefore calculated as £168 million operating earnings (HY10: £219 million) grossed up for tax at 26.5% (HY10: 28%).

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

Life MCEV operating earnings after tax

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

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
New business value	**8**	11
Expected existing business contribution	**129**	150
Non-economic experience variances and assumption changes		
Experience variances	**24**	74
Assumption changes	**–**	(12)
Other operating variances	**7**	(4)
Total non-economic experience variances and assumption changes	**31**	58
Life MCEV operating earnings after tax	**168**	219

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

New business value generated from vesting annuities during the period was £8 million after tax. New business value represents the value of vesting pension policies not reflected in the opening MCEV. These arise from pension policies which have no attaching annuity guarantees. The new business margin[i] was 5% after tax (HY10: 5%).

The Group uses long-term investment returns in calculating the expected existing business contribution. The expected contribution of £129 million after tax is £21 million lower than in 2010, primarily due to a decrease in the long-term risk-free rate and a lower opening MCEV for covered business.

The life division's non-economic experience variances increased the MCEV by £24 million after tax in the period, the main drivers being the resolution of legacy tax issues and positive longevity experience. Other operating variances of £7 million after tax primarily relate to modelling improvements. There were no significant assumption changes at the half year. Positive non-economic experience variances and assumption changes in 2010 largely related to tax optimisation benefits and back book management including data cleansing projects.

Management services and IGNIS Asset Management operating profit

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

Group costs

Costs relating to Group functions and project spend amounted to £24 million before tax (HY10: £16 million). The balance of the charge in both periods relates primarily to the pension schemes and is different to IFRS as the MCEV does not recognise pension schemes in surplus. The increase in Group costs primarily reflects the reallocation of certain corporate costs from the operating companies to Group.

Economic variances

Negative economic variances on covered business of £5 million before tax primarily relate to the difference between actual short-term returns and the long-term investment return assumption used to determine operating earnings, partly offset by the positive impact of favourable equity markets, yields and tightening credit spreads. The 2010 result benefited from strong returns on investments in hedge funds and movements in the risk-free rate.

Negative economic variances on non-covered business of £5 million before tax largely relate to fair value losses on interest rate swaps held in the Holding Companies.

Other non-operating variances on covered business

Other non-operating variances on covered business of negative £1 million before tax primarily relate to restructuring costs incurred by the life companies.

Non-recurring items on non-covered business

Overall non-recurring items on non-covered business increased embedded value by £18 million before tax. Non-recurring items include restructuring costs of £14 million (HY10: £32 million) and regulatory change and systems transformation costs of £7 million (HY10: £nil). These costs are offset by a gain of £4 million arising from closing the Pearl Group Staff Pension Scheme to future accrual and a £35 million recovery of historic costs under the Management Services Agreements with the life division.

Finance costs attributable to owners

Finance costs attributable to owners comprise:

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Debt finance costs[1]	**48**	48
Other (including Tier 1 coupon)	**27**	33
	75	81

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

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

Group MCEV

The Group MCEV increased by £99 million over the period to £2,203 million at 30 June 2011 as shown below.

Movement in Group MCEV	**Half year ended 30 June 2011 £m**	Half year ended 30 June 2010 £m
Group MCEV at 1 January	**2,104**	1,827
Group MCEV earnings after tax	**112**	192
Other comprehensive income		
Actuarial gains/(losses) on defined benefit pension scheme	**13**	(45)
Capital and dividend flows	**(26)**	(12)
Group MCEV at 30 June	**2,203**	1,962

Capital and dividend flows mainly comprise net external dividend payments by Phoenix Group Holdings of £29 million.

IFRS operating profit

The Group has delivered a strong performance, generating an IFRS operating profit of £136 million for the period (HY10: £176 million).

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
IFRS operating profit		
Phoenix Life	**152**	182
IGNIS Asset Management	**18**	22
Group costs	**(34)**	(28)
Operating profit before adjusting items	**136**	176
Investment return variances and economic assumption changes on long-term business	**47**	128
Variance on owners' funds	**(3)**	28
Amortisation of acquired in-force business and other intangibles	**(69)**	(73)
Non-recurring items	**13**	(19)
Profit before finance costs attributable to owners	**124**	240
Finance costs attributable to owners	**(55)**	(60)
Profit before the tax attributable to owners	**69**	180
Tax credit attributable to owners	**39**	27
Profit for the period attributable to owners	**108**	207

Phoenix Life

Operating profit for Phoenix Life is based on expected investment returns on financial investments backing owners' and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. The principal assumptions underlying the calculation of the longer term investment return are set out in note 3 to the IFRS condensed consolidated interim financial statements.

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

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
With-profit	**27**	27
With-profit where internal capital support provided	**30**	–
Non-profit and unit-linked	**68**	127
Longer-term return on owners' funds	**17**	21
Management services	**10**	7
Phoenix Life operating profit before tax	**152**	182

The with-profit operating profit of £27 million represents the shareholders' one-ninth share of the policyholder bonuses and was in line with the comparative period.

The operating profit for with-profit funds where internal capital support has been provided primarily reflects the benefit of modelling improvements of £21 million.

The operating profit for non-profit and unit-linked funds was impacted by negative experience variances of £15 million compared to positive experience variances of £21 million in the first half of 2010 which included the benefit of management actions, for example, data cleansing projects. Recurring margins reduced by £11 million following model enhancements.

The longer-term return on owners' funds of £17 million reflects the asset mix of owners' funds, primarily cash based assets and fixed interest securities. The investment policy for managing these funds remains prudent.

The operating profit for the management services companies comprises income from the life companies in accordance with the respective management services agreements less fees related to the outsourcing of services and other operating costs. The current period operating profit of £10 million was up from £7 million in the first half of 2010 reflecting the reallocation of certain functional costs to Group.

IGNIS Asset Management

The operating profit of the asset management business was impacted by the costs of investment in new business development. The reduction in profit was partly offset by an increase in fees earned on managing stock lending collateral and growth in third party revenues.

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Third party (including Group pension schemes)[1]	**16**	15
Life fund revenue[2]	**50**	49
Total revenues	**66**	64
Total expenses	**(48)**	(42)
IGNIS Asset Management operating profit before tax	**18**	22

1 Includes performance fees of £1 million (HY10: £nil).

2 Includes performance fees of £8 million (HY10: £10 million).

The increase in expenses reflects investment in additional asset management capability together with the infrastructure to support Ignis's expansion plans. This includes new premises in London, building out of support functions and investing in the system architecture.

Revised fee arrangements with Phoenix Life, implemented in the second half of 2010, reduced the base fee earned by IGNIS in exchange for the potential for greater performance fees. These performance fees will mainly be recognised at the end of the calendar year.

Group costs

Costs relating to Group functions and project spend amounted to £24 million (HY10: £16 million). The balance of the charge in both periods relates primarily to the pension schemes. The increase in Group costs primarily reflects the reallocation of certain corporate costs from the operating companies to Group.

Adjusting items

Overall, the life companies had favourable investment return variances and economic assumption changes of £47 million in the period, primarily driven by better than expected returns on property and tightening credit spreads. The 2010 half year results benefited from strong returns on hedge funds and property investments.

The unfavourable variance on owners' funds of £3 million primarily relates to losses on interest rate and credit default swaps.

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the operating companies in 2009. The acquired in-force business is being amortised in line with the run off of the life companies. Amortisation of acquired in-force business during the period totalled £60 million (HY10: £64 million). Amortisation of other intangible assets totalled £9 million in the period (HY10: £9 million).

Non-recurring items include restructuring costs of £21 million (HY10: £39 million) and regulatory change and systems transformation costs of £7 million (HY10: £13 million). These costs were offset by a gain of £10 million arising from closing the Group's pension schemes to future accrual and a £35 million recovery of historic costs under the Management Services Agreements with the life division. Non-recurring items in the first half of 2010 included a £29 million gain on the near finalisation in 2009 of asset shares related to a guaranteed annuity compromise scheme.

Finance costs attributable to owners

Finance costs attributable to owners comprise:

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Debt finance costs[1]	**48**	49
Other finance costs	**7**	11
Finance costs attributable to owners	**55**	60

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

Tax credit attributable to owners

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

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

The Group tax credit for the year attributable to owners is £39 million despite profits (after policyholder tax) of £69 million. This primarily reflects the benefit of a decrease of £20 million in deferred tax liabilities as a result of the ongoing reduction in UK corporation tax rates and a £30 million benefit from the resolution of legacy tax issues.

Group assets under management

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

Group assets under management	Life and Holding Companies £bn	Third party £bn	Total Group assets under management £bn	Stock lending collateral[2] £bn	Total including stock lending collateral £bn
As at 1 January 2011	**62.1**	**7.5**	**69.6**	**9.2**	**78.8**
Inflows	**–**	**1.3**	**1.3**	**0.3**	**1.6**
Outflows	**(2.1)**	**(0.5)**	**(2.6)**	**–**	**(2.6)**
Market movements	**1.4**	**0.2**	**1.6**	**–**	**1.6**
Other[1]	**(0.3)**	**(1.1)**	**(1.4)**	**–**	**(1.4)**
As at 30 June 2011	**61.1**	**7.4**	**68.5**	**9.5**	**78.0**

1 Includes the transfer of £1.0 billion of assets in respect of the Hexham partnership following its restructuring in 2010.

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

Life and Holding Companies' assets decreased by £1.0 billion to £61.1 billion in the first half of the year as the run off of the closed life business of £2.1 billion offset positive market movements of £1.4 billion. Of the life and Holding Companies' assets under management of £61.1 billion (31 December 2010: £62.1 billion), IGNIS manages £52.5 billion (31 December 2010: £53.5 billion) and administers £0.3 billion (31 December 2010: £0.3 billion). IGNIS provides oversight and advice services on £7.0 billion (31 December 2010: £7.6 billion) of life company assets managed by third parties.

Third-party (including Group pension schemes) net inflows were £0.8 billion in the period mainly reflecting strong sales of real estate and liquidity funds and a £0.4 billion new Rates Liability Driven Investing (LDI) mandate from the PGL Pension Scheme.

Capital management
The Group has continued to focus on capital and gearing during the period. The IGD headroom over capital policy has increased by £0.2 billion to £0.3 billion and the gearing ratio has reduced to 48% as at 30 June 2011.

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

The Group's IGD assessment is made at the level of the highest EEA level insurance group holding company, which is Phoenix Life Holdings Limited ('PLHL'), a subsidiary of Phoenix Group Holdings.

The estimated IGD surplus has increased by £0.1 billion to £1.1 billion at 30 June 2011. The components of the estimated IGD calculation are shown below:

	30 June 2011 £bn	31 December 2010 £bn
Group capital resources ('GCR')	**5.5**	5.3
Group capital resource requirement ('GCRR')	**(4.4)**	(4.3)
IGD surplus (estimated)	**1.1**	1.0

The key drivers of the movement in the IGD surplus are:

- Management actions to optimise the IGD surplus which delivered a benefit of £0.3 billion. This largely relates to the transfer of the Phoenix & London Assurance Limited business into Phoenix Life Limited (effective from 1 January 2011) and the recapture of an internal reinsurance arrangement; offset by
- Dividend payments and debt financing and repayments of £0.2 billion.

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

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

The headroom over the policy is £0.3 billion (31 December 2010: £0.1 billion).

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

The excluded capital relates to:

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

At 30 June 2011 the estimated IGD Excess Capital was £2.9 billion (31 December 2010: £2.8 billion) as shown below:

	30 June 2011 £bn	31 December 2010 £bn
IGD Excess Capital	**2.9**	2.8
Restricted assets	**(0.4)**	(0.4)
Excess policyholder capital	**(1.4)**	(1.4)
IGD surplus (estimated)	**1.1**	1.0

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 Group's target in a range of reasonably foreseeable circumstances. The results of that stress testing are provided below:

Sensitivity analysis	**IGD surplus 30 June 2011 £bn**	**IGD headroom 30 June 2011 £bn**	**IGD Excess Capital 30 June 2011 £bn**
Estimated 30 June 2011 position	**1.1**	**0.3**	**2.9**
Estimated position following a 20% fall in equity markets	**1.1**	**0.3**	**2.5**
Estimated position following a 15% fall in property values	**1.1**	**0.3**	**2.7**
Estimated position following a 75 bps parallel increase in yields	**1.1**	**0.3**	**2.9**
Estimated position following a 75 bps parallel decrease in yields	**1.1**	**0.2**	**2.9**
Estimated position following credit spread widening[1]	**1.1**	**0.3**	**2.8**
Estimated position following a combined 25% fall in equity markets, 20% fall in property, 75 bps increase in yields and credit spreads widening[1]	**1.0**	**0.3**	**2.0**

1 10 year term: AAA – 52bps, AA – 72bps, A – 104bps, BBB – 152bps.

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

Solvency II

The Group has a well established Solvency II programme and has continued to progress development towards meeting the Solvency II requirements. 2011 is a key year in the development of Solvency II with the European Commission consulting on the Level 3 guidance and Level 2 implementing measures expected later in the year. The Group remains actively engaged in supporting the development of Solvency II through industry consultation and participation in FSA and ABI industry forums. Both the European Council and the European Parliament have proposals to amend the timescales for the implementation of Solvency II and there appears to be growing political momentum towards delaying full implementation until 1 January 2014. At the present time however, there is no certainty that this will happen and the Group continues to plan for implementation on 1 January 2013.

The Group remains on track to deliver an approved partial Group internal model and has been accepted into the FSA internal model pre-application process following the submission of the pre-application process qualifying criteria template in 2010. In respect of the resources the FSA will devote to the pre-application process it has stated that it will concentrate on a small population of firms representing a significant market share and which it regards as having the highest potential impact on its objectives. The Group is included in this category and remains in continuous and constructive dialogue with the FSA.

The Group's actuarial IT systems transformation project will deliver a single actuarial modelling platform across the business, transforming modelling capability and efficiency and underpinning development of the Solvency II internal model and Own Risk and Solvency Assessment.

Shareholder debt

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

The Group has net shareholder debt of £2,391 million (31 December 2010: £2,733 million) as shown below. The gearing ratio[i] is 48% (31 December 2010: 52%).

Shareholder debt (including hybrid debt)	**30 June 2011 £m**	31 December 2010 £m
Bank debt at face value		
Pearl facility	**400**	425
Pearl loan notes	**77**	76
Impala facility	**2,055**	2,138
Royal London PIK notes and facility	**109**	106
Tier 1 Bonds at market value	**304**	304
PLL subordinated debt at market value	**166**	170
Shareholder debt (including hybrid debt)[1]	**3,111**	3,219
Holding Company cash and cash equivalents	**(720)**	(486)
Net shareholder debt	**2,391**	2,733

1 The unsecured loan notes of £9 million (31 December 2010: £12 million) are excluded from this shareholder debt analysis as their repayment will be funded from an escrow account which is not included in the total for Holding Company cash and cash equivalents.

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

The Group intends to improve operational and financial flexibility through a targeted reduction in the gearing ratio and has already achieved its target of reducing gearing to below 50 percent by the end of 2011.

i Net shareholder debt as a percentage of the sum of Group MCEV, net shareholder debt and the present value of future profits ('PVFP') of IGNIS. The PVFP of IGNIS at 30 June 2011 was £0.4 billion (31 December 2010: £0.4 billion).

Risk management

Risk management is a core component of the Group's strategic agenda. The Board seeks to ensure that the Group identifies and manages all risks accordingly; to either create additional value for its stakeholders or to mitigate any potentially adverse effects. The Group has continued to strengthen its risk culture and further develop its risk framework during the first half of 2011, which has included the refresh of the Group's Policies and the implementation of risk appetite targets for individual risk classes and capacity reporting.

The principal risks and uncertainties facing the Group have not changed significantly over the first half of the year and remain the principal risks and uncertainties as described on page 47 in the 2010 Annual Report and Accounts and are detailed below:

Risk	Impact	Mitigation
In times of extreme market turbulence, the Group may not have sufficient liquid assets to meet its payment obligations or may suffer a loss in value.	The Group has ongoing obligations to meet payments to creditors which are funded by the release of capital and profits from the underlying operating companies. The emerging cash flows of the Group may be impacted during periods of extreme market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's embedded value, financial condition and prospects.	The Group undertakes regular monitoring activities in relation to market risk exposure, including the monitoring of asset mixes, cash flow forecasting and stress and scenario testing. In response to this, the Group may implement de-risking strategies to mitigate against unwanted outcomes. The Group also maintains cash buffers at the holding company level to reduce reliance on emerging cash flows.
The potential limitation on distributions from the Group's FSA regulated companies may impair the ability of the Group to service its mandatory commitments or make discretionary payments.	The Group has ongoing principal repayment and interest obligations to two banking syndicates. In the event that transfers from the Group's insurance and investment management subsidiaries are limited by any law, regulatory action or change in established approach, this may impair the Group's ability to service these obligations. The implementation of directives and other legislative changes such as Solvency II could have this effect and may therefore have a material adverse effect on the Group's results, financial condition and cash flows, including the exercise by the external finance providers of their security rights over Group companies.	The Group puts considerable efforts into managing relationships with our regulators so that we are able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory change and their impact on our operations and lobbies where appropriate.
Significant counterparty failure.	The Phoenix Life segment is exposed to deterioration in the actual or perceived creditworthiness or default of issuers of relevant debt securities or from trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements or derivative counterparties or stock-borrowers failing to pay as required. Assets held to meet obligations to policyholders include debt securities. An increase in credit spreads on such securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could have a material adverse impact on the Group's financial condition.	The Group regularly monitors its counterparty exposure and has specific limits relating to counterparty credit rating. Where possible, exposures are diversified through the use of a range of counterparty providers. All reassurance and derivative positions are appropriately collateralised and guaranteed.

Risk	Impact	Mitigation
Adverse changes in experience versus actuarial assumptions.	The Group has liabilities under annuities and other policies that are sensitive to future longevity and mortality rates. Changes in assumptions may lead to changes in the assessed level of liabilities to policyholders. The amount of additional capital required to meet those liabilities could have a material adverse impact on the Group's embedded value, results, financial condition and prospects.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any variances in assumptions.
Competition and the ability to finance acquisitions may make it difficult for the Group to grow.	There are other closed fund consolidators as well as a number of other potential purchasers. Our current focus on managing our existing business may result in missed opportunities. Moreover, the Group may face difficulties in obtaining additional third party financing for any acquisitions.	The Group maintains an ongoing dialogue with potential vendors.

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

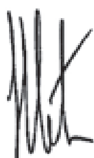
- **Statement of Directors' responsibilities**
- **Auditor's review report**
- **Condensed consolidated interim financial statements and notes**
- **Additional life company asset disclosures**

Statement of Directors' responsibilities

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

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

1. The condensed consolidated financial statements for the half year ended 30 June 2011, 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 2011 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.



Clive Bannister
Group Chief Executive

Jonathan Yates
Group Finance Director

St Helier
24 August 2011

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 2011, of Phoenix Group Holdings, Cayman Islands, as set out on the pages 24 to 31, which comprises the condensed consolidated income statement, the condensed statement of consolidated comprehensive income, the pro forma reconciliation of group operating profit to profit attributable to owners, the condensed statement of consolidated financial position, the condensed statement of consolidated cash flows, the condensed statement of consolidated changes in equity and the related notes on pages 32 to 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 2011 is not prepared, in all material respects, in accordance with IAS 34, as adopted by the European Union.

The Hague, 24 August 2011

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 2011

	Notes	**Half year ended 30 Jun 2011 £m**	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Gross premiums written		**710**	808	1,534
Less: premiums ceded to reinsurers		**(42)**	(44)	(85)
Net premiums written		**668**	764	1,449
Fees		**86**	118	162
Net investment income		**1,519**	1,991	5,907
Total revenue, net of reinsurance payable		**2,273**	2,873	7,518
Other operating income		**6**	8	25
Net income		**2,279**	2,881	7,543
Policyholder claims		**(2,514)**	(2,745)	(5,260)
Less: reinsurance recoveries		**104**	91	210
Change in insurance contract liabilities		**997**	177	(252)
Change in reinsurers' share of insurance contract liabilities		**(57)**	106	89
Transfer (to)/from unallocated surplus		**(29)**	6	(143)
Net policyholder claims and benefits incurred		**(1,499)**	(2,365)	(5,356)
Change in investment contract liabilities		**(144)**	244	(964)
Acquisition costs		**(7)**	(7)	(12)
Change in present value of future profits		**(6)**	–	7
Amortisation of acquired in-force business		**(67)**	(74)	(147)
Amortisation of customer relationships		**(9)**	(9)	(18)
Administrative expenses		**(323)**	(345)	(676)
Net income attributable to unit holders		**1**	(6)	(97)
Total operating expenses		**(2,054)**	(2,562)	(7,263)
Profit before finance costs and tax		**225**	319	280
Finance costs		**(131)**	(123)	(269)
Profit for the period before tax		**94**	196	11
Tax attributable to policyholders' returns		**(25)**	(16)	(5)
Profit before the tax attributable to owners		**69**	180	6
Tax credit	4	**14**	11	69
Add: tax attributable to policyholders' returns		**25**	16	5
Tax credit attributable to owners		**39**	27	74
Profit for the period attributable to owners		**108**	207	80
Attributable to				
Owners of the parent		**90**	179	30
Non-controlling interests		**18**	28	50
		108	207	80
Earnings per ordinary share				
Basic earnings per ordinary share	5	**52.3p**	135.6p	20.1p
Diluted earnings per ordinary share	5	**52.3p**	135.6p	20.1p

Condensed statement of consolidated comprehensive income
for the half year ended 30 June 2011

	Notes	**Half year ended 30 Jun 2011 £m**	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Profit for the period		**108**	207	80
Other comprehensive income:				
Actuarial gains of defined benefit pension schemes		**17**	8	45
Contribution in respect of actuarial losses of defined benefit pension scheme by the with-profit funds	9	**–**	27	27
		17	35	72
Tax credit/(charge)	4.2	**9**	(2)	4
		26	33	76
Total comprehensive income for the period		**134**	240	156
Attributable to:				
Owners of the parent		**116**	212	106
Non-controlling interests	8	**18**	28	50
		134	240	156

Pro forma reconciliation of Group operating profit to profit attributable to owners
for the half year ended 30 June 2011

	Notes	**Half year ended 30 Jun 2011 £m**	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Operating profit				
Phoenix Life		**152**	182	388
IGNIS Asset Management		**18**	22	46
		170	204	434
Group costs		**(34)**	(28)	(61)
Total operating profit before adjusting items		**136**	176	373
Investment return variances and economic assumption changes on long-term business	3.3	**47**	128	18
Variance on owners' funds	3.3	**(3)**	28	19
Amortisation of acquired in-force business		**(60)**	(64)	(132)
Amortisation of customer relationships		**(9)**	(9)	(18)
Non-recurring items		**13**	(19)	(139)
Profit before finance costs attributable to owners		**124**	240	121
Finance costs attributable to owners		**(55)**	(60)	(115)
Profit before the tax attributable to owners		**69**	180	6
Tax credit attributable to owners	4	**39**	27	74
Profit for the period attributable to owners		**108**	207	80

Condensed statement of consolidated financial position
as at 30 June 2011

	Notes	**30 Jun 2011 £m**	30 Jun 2010 Restated £m	31 Dec 2010 Restated £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	6	**–**	–	–
Share premium		**1,080**	869	1,109
Other reserves		**5**	235	5
Shares held by employee trust and group entities		**(12)**	(4)	(13)
Foreign currency translation reserve		**93**	93	93
Retained earnings		**504**	489	386
Total equity attributable to owners of the parent		**1,670**	1,682	1,580
Non-controlling interests	8	**711**	733	720
Total equity		**2,381**	2,415	2,300
Liabilities				
Pension scheme deficit	9	**62**	194	77
Insurance contract liabilities				
Liabilities under insurance contracts	10	**49,524**	50,001	50,479
Unallocated surplus		**893**	715	864
		50,417	50,716	51,343
Financial liabilities				
Investment contracts	12.1	**8,701**	7,969	8,849
Borrowings	11	**3,204**	4,135	4,028
Deposits received from reinsurers		**408**	432	419
Derivatives	12.1	**2,194**	2,273	2,431
Net asset value attributable to unit holders	12.1	**2,197**	1,134	1,937
Obligations for repayment of collateral received		**10,152**	4,441	10,160
		26,856	20,384	27,824
Provisions		**65**	98	73
Deferred tax		**612**	704	607
Reinsurance payables		**37**	22	25
Payables related to direct insurance contracts		**768**	718	713
Current tax		**44**	89	99
Accruals and deferred income		**208**	149	214
Other payables		**1,209**	1,565	327
Total liabilities		**80,278**	74,639	81,302
Total equity and liabilities		**82,659**	77,054	83,602

Condensed statement of consolidated financial position (continued)
as at 30 June 2011

	Notes	**30 Jun 2011 £m**	30 Jun 2010 Restated £m	31 Dec 2010 Restated £m
ASSETS				
Pension scheme surplus	9	**80**	72	59
Intangible assets				
Goodwill		**115**	115	115
Acquired in-force business		**1,949**	2,089	2,016
Customer relationships		**411**	429	420
Present value of future profits		**36**	35	42
		2,511	2,668	2,593
Property, plant and equipment		**32**	34	34
Investment property		**1,837**	1,728	1,732
Financial assets				
Loans and receivables		**2,365**	1,085	2,293
Derivatives	12.1	**2,709**	3,258	3,197
Equities	12.1	**11,991**	11,297	12,460
Fixed and variable rate income securities	12.1	**40,292**	38,174	40,899
Collective investment schemes	12.1	**6,628**	6,567	7,144
		63,985	60,381	65,993
Insurance assets				
Reinsurers' share of insurance contract liabilities		**2,892**	2,943	2,939
Reinsurance receivables		**270**	259	263
Insurance contract receivables		**20**	21	19
		3,182	3,223	3,221
Current tax		**4**	12	5
Prepayments and accrued income		**548**	614	603
Other receivables		**1,135**	1,644	174
Cash and cash equivalents		**9,345**	6,678	9,188
Total assets		**82,659**	77,054	83,602

Condensed statement of consolidated cash flows

for the half year ended 30 June 2011

	Notes	**Half year ended 30 Jun 2011 £m**	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Cash flows from operating activities				
Cash generated by operations	13	**1,185**	704	3,392
Taxation (paid)/recovered		**(20)**	4	3
Net cash flows from operating activities		**1,165**	708	3,395
Cash flows from investing activities				
Purchase of property, plant and equipment		**(3)**	(1)	(3)
Net cash flows from investing activities		**(3)**	(1)	(3)
Cash flows from financing activities				
Gross proceeds from issue of share capital		**–**	–	33
Proceeds from issuing shares in subsidiaries to non-controlling interests	8	**3**	97	96
Proceeds from new borrowings	11	**63**	–	–
Partial buy back of non-controlling interests	8	**–**	(4)	(4)
Ordinary share dividends paid	7	**(29)**	(20)	(43)
Coupon on Perpetual Reset Capital Securities paid		**(26)**	(31)	(62)
Dividends paid to non-controlling interests	8	**(11)**	(7)	(18)
Interest paid on borrowings		**(98)**	(119)	(122)
Repayment of policyholder borrowings		**(797)**	–	(38)
Repayment of shareholder borrowings		**(110)**	(26)	(127)
Net cash flows from financing activities		**(1,005)**	(110)	(285)
Net increase in cash and cash equivalents		**157**	597	3,107
Cash and cash equivalents at the beginning of the period		**9,188**	6,081	6,081
Effect of exchange rate changes on cash and cash equivalents		**–**	–	–
Cash and cash equivalents at the end of the period		**9,345**	6,678	9,188

Of the total repayment of policyholder borrowings, £782 million represents settlement of a number of borrowings as part of the restructure of a £1.2 billion portfolio of corporate loans.

Condensed statement of consolidated changes in equity
for the half year ended 30 June 2011

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

Condensed statement of consolidated changes in equity

for the half year ended 30 June 2010

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust and group entities £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 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
for the year ended 31 December 2010

	Share capital (note 6) £m	Share premium £m	Other reserves £m	Shares held by employee trust and group entities £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 8) £m	Total £m
At 1 January 2010	–	859	257	(4)	93	207	1,412	728	2,140
Total comprehensive income for the period	–	–	–	–	–	106	106	50	156
Dividends paid on ordinary shares	–	(34)	(20)	–	–	–	(54)	–	(54)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(18)	(18)
Coupon paid to non-controlling interest	–	–	–	–	–	–	–	(47)	(47)
Issue of share capital	–	33	–	–	–	–	33	–	33
Shares issued in lieu of dividend	–	11	–	–	–	–	11	–	11
Issue of ordinary shares – Chairman's shares	–	1	–	–	–	(1)	–	–	–
Conversion of contingent rights over shares	–	230	(230)	(3)	–	–	(3)	–	(3)
Credit to equity for equity-settled share-based payment	–	–	–	–	–	8	8	–	8
Conversion of warrants into ordinary shares	–	9	(2)	–	–	–	7	–	7
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	–	96	96
Partial buy back of non-controlling interest	–	–	–	–	–	–	–	(19)	(19)
Restructure of non-controlling interest	–	–	–	–	–	70	70	(70)	–
Shares acquired by employee trust	–	–	–	(10)	–	–	(10)	–	(10)
Shares distributed by employee trust	–	–	–	4	–	(4)	–	–	–
At 31 December 2010	–	1,109	5	(13)	93	386	1,580	720	2,300

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

The interim financial statements for the half year ended 30 June 2011 comprise the interim financial statements of Phoenix Group Holdings ("the Company") and its subsidiaries (together referred to as "the Group") as set out on pages 24 to 53 and were authorised by the Board of Directors for issue on 24 August 2011. The interim financial statements are unaudited but have been reviewed by the auditors, Ernst & Young Accountants LLP and their review report appears on page 23.

The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and in accordance with the accounting policies set out in the 2010 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:

- IAS 32 *Financial Instruments: Presentation* (Amendment). The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments;
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment). The amendment permits a prepayment of future service costs in accordance with a minimum funding requirement to be recognised as a pension asset;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*. Addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in its equity instruments being issued to extinguish all or part of the financial liability; and
- Annual improvements 2010. This makes a number of minor improvements to existing standards and interpretations.

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 interim financial statements.

Prior period adjustment
During the Group's review of the recoverability of its deferred tax assets, it was identified that a deferred tax asset of £38 million should have been written off at the date of, and as a consequence of, the 2009 acquisition of the then Pearl businesses, by Phoenix Group Holdings. The consequence of this is a prior year understatement of deferred tax liabilities and goodwill of £38 million. The impact of the correction on the prior year balance sheets is to increase goodwill by £38 million and increase the deferred tax liability by the same amount. The correction of this classification error has no impact on operating profit, profit attributable to owners, retained earnings or net assets. A balance sheet as at 31 December 2009 has not been presented as it is not felt to add any further clarity to the information presented above.

2. Changes in accounting policies

There have been no changes in accounting policies identified in the current reporting period, and the comparatives for the year ended 31 December 2010 and the half year ended 30 June 2010 included in these interim financial statements are as presented in the most recent annual and interim financial statements.

3. Segmental analysis

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group. For management purposes, the Group is organised into business units based on their products and services and has two 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 2011

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

Half year ended 30 June 2010

	Phoenix Life £m	IGNIS Asset Management £m	Unallocated group £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:					
Recurring	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 customer relationships	(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

Year ended 31 December 2010

	Phoenix Life £m	IGNIS Asset Management £m	Unallocated group £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	1,449	–	–	–	1,449
Other segment	–	–	–	–	–
	1,449	–	–	–	1,449
Fees from:					
External customers	100	62	–	–	162
Other segment	–	82	–	(82)	–
	100	144	–	(82)	162
Net investment income:					
Recurring	5,877	–	35	–	5,912
Offset interest income on interest swaps against interest expense	–	–	(53)	–	(53)
Non-recurring	(5)	–	–	–	(5)
	5,872	–	(18)	–	5,854
Other operating income:					
Recurring	25	–	–	–	25
Net income	7,446	144	(18)	(82)	7,490
Net policyholder claims and benefits incurred:					
Recurring	(5,292)	–	–	–	(5,292)
Non-recurring	(64)	–	–	–	(64)
	(5,356)	–	–	–	(5,356)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	–	(3)	–	–	(3)
Amortisation of acquired in-force business	(147)	–	–	–	(147)
Amortisation of customer relationships	(15)	(3)	–	–	(18)
	(162)	(6)	–	–	(168)
Other operating expenses:					
Recurring	(1,616)	(95)	(40)	82	(1,669)
Non-recurring	(38)	–	(32)	–	(70)
	(1,654)	(95)	(72)	82	(1,739)
Total operating expense	(7,172)	(101)	(72)	82	(7,263)
Profit/(loss) before finance costs and tax	274	43	(90)	–	227
Finance costs	(101)	–	(168)	–	(269)
Offset interest income on interest swaps against interest expense	–	–	53	–	53
	(101)	–	(115)	–	(216)
Profit before tax	173	43	(205)	–	11
Tax attributable to policyholders' returns	(5)	–	–	–	(5)
Segmental result before the tax attributable to owners	168	43	(205)	–	6

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

Half year ended 31 June 2011

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

Non-recurring items included:

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

Half year ended 30 June 2010

	Phoenix Life £m	IGNIS Asset Management £m	Unallocated group £m	Elimi-nations £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 customer relationships	(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 included:

- 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 in 2009 of revised asset shares in the Phoenix & London Assurance with-profit fund as a result of a guaranteed annuity option compromise scheme 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.

Year ended 31 December 2010

	Phoenix Life £m	IGNIS Asset Management £m	Unallocated group £m	Elimi-nations £m	Total £m
Operating profit/(loss) before adjusting items	388	46	(61)	–	373
Investment return variances and economic assumption changes on long-term business	18	–	–	–	18
Variance on owners' funds	16	–	3	–	19
Amortisation of acquired in-force business	(132)	–	–	–	(132)
Amortisation of customer relationships	(15)	(3)	–	–	(18)
Non-recurring items	(107)	–	(32)	–	(139)
Financing costs attributable to owners	–	–	(115)	–	(115)
Segment result before the tax attributable to owners	168	43	(205)	–	6

Non-recurring items included:

- Premium Listing and other restructuring costs, including site rationalisation and outsourcer transformation of £80 million;
- regulatory change and systems transformation costs of £36 million; and
- an increase in the expense reserves of Phoenix Life of £23 million following the new arrangement between Phoenix Life and IGNIS. IGNIS will recognise the benefit of this new arrangement as it is earned and so this charge will reverse over time.

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.

Owners' funds

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

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

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Variance on owners' funds of:			
Subsidiary undertakings	**(4)**	24	7
The Company	**1**	4	12
	(3)	28	19

The variances on owners' funds of the Company comprises fair value (losses)/gains arising from movements in the fair value of warrants in issue over the Company's shares.

Calculation of the long-term investment return

The expected return on investments for both owner and policyholder funds within Phoenix Life is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period, and adjusted for significant capital movements during the 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 2011 %	Half year ended 30 Jun 2010 %	Year ended 31 Dec 2010 %
Equities	**7.1**	7.6	7.6
Property	**6.1**	6.6	6.6
Gilts (15 year gilt)	**4.0**	4.5	4.5
Other fixed interest (15 year gilt plus 0.6%)	**4.6**	5.1	5.1

3.4 Segmental total assets and total liabilities

	30 Jun 2011		30 Jun 2010 Restated		31 Dec 2010 Restated	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Phoenix Life	**82,217**	**77,289**	76,644	71,303	83,187	78,158
IGNIS Asset Management	**362**	**129**	338	110	356	128
Unallocated corporate	**80**	**2,860**	72	3,226	59	3,016
	82,659	**80,278**	77,054	74,639	83,602	81,302

4. Tax credit

4.1 Current period tax credit

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Current tax:			
UK Corporation tax	**16**	28	30
Overseas tax	**3**	3	7
	19	31	37
Adjustment in respect of prior years	**(48)**	–	16
	(29)	31	53
Deferred tax:			
Reversal/origination of temporary differences			
On non-profit surpluses	**10**	(2)	(32)
On amortisation of acquired in-force business	**(23)**	(25)	(50)
On amortisation of customer relationships intangible asset	**(3)**	(3)	(5)
On unrealised gains	**3**	–	–
Other temporary differences	**–**	(2)	–
Losses on group restructuring not matched in accounts	**–**	(35)	(33)
Write (up)/down of deferred tax assets	**(2)**	15	2
On accrued interest	**–**	–	(38)
Pension scheme movements	**8**	(9)	19
On provisions for future expenditure	**2**	4	(6)
Utilisation of tax losses	**40**	15	57
Change in rate of corporation tax	**(20)**	–	(19)
Tax losses arising in the current period carried forward	**–**	–	(17)
	15	(42)	(122)
Total tax credit	**(14)**	(11)	(69)
Attributable to:			
policyholders	**25**	16	5
owners	**(39)**	(27)	(74)
	(14)	(11)	(69)

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 attributable to policyholder earnings was £25 million (half year ended 30 June 2010: £16 million; year ended 31 December 2010: £5 million).

The adjustment in respect of prior years mainly comprises the release of provisions set up in respect of tax computations that had been submitted. The filing positions have now been settled and the provisions released.

4.2 Tax charged to other comprehensive income

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Deferred tax on actuarial gains of defined benefit schemes	**(9)**	2	(4)

4.3 Reconciliation of tax credit

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Profit before tax	**94**	196	11
Policyholder tax charge	**(25)**	(16)	(5)
Profit before the tax attributable to owners	**69**	180	6
Tax at standard UK rate of 26.5% (2010:28%)	**18**	50	2
Net tax losses on group restructuring not matched in accounts	**–**	(126)	(110)
Untaxed income and gains	**(18)**	(37)	(61)
Disallowable expenses	**1**	3	18
Adjustment to tax charge in respect of prior years	**(48)**	–	16
Non taxable fair value gains	**–**	(13)	–
Movement in non-profit surplus taxed at less than 26.5% (2010:28%)	**14**	–	20
Profits taxed at rates other than 26.5% (2010:28%)	**2**	6	(3)
Tax on losses not previously valued	**(13)**	72	(8)
Prior year deferred tax	**8**	–	12
Deferred tax rate change	**(20)**	–	(19)
Current year losses not valued	**28**	–	41
Write down of deferred tax assets	**–**	15	–
Deductible temporary differences not valued	**(7)**	–	11
Other	**(4)**	3	7
Owners' tax credit	**(39)**	(27)	(74)
Policyholder tax charge	**25**	16	5
Total tax credit for the period	**(14)**	(11)	(69)

A gradual reduction in the UK corporation tax rate from 28% to 24% over 4 years was announced in the Emergency Budget of 22 June 2010 with a further 1% reduction being announced in the Budget of 23 March 2011. The Finance (No. 2) Act 2010 included the first of the 1% rate reductions with effect from April 2011 and a further 1% reduction was substantively enacted on 29 March 2011 under the Provisional Collection of Taxes Act 1968, with further reductions to be dealt with by future legislation. The benefit to the Group's net assets arising from the further 3% reduction of rate is estimated as £57 million in total and will be recognised as the legislation is substantively enacted.

On 23 March 2011, HMRC issued a technical note on 'Solvency II and the Taxation of Insurance Companies' outlining changes to the taxation of UK insurance companies with effect from 2013. The Group has been actively involved in consulting with HMRC and HM Treasury on the detail of the new rules, with the aim of ensuring that the Group's policyholders and shareholders are as far as possible not adversely affected by the changes.

The consultation process is still on-going in relation to certain aspects of the new rules, and as a consequence of this and the complexity of the proposed changes it has not been possible to estimate their potential future impact on the deferred tax balances shown in these interim financial statements. Draft legislation is expected in the second half of the year and its estimated impact on the deferred tax balances will be considered and disclosed in the year end financial statements.

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 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Profit for the period	**108**	207	80
Share of result attributable to non-controlling interests	**(18)**	(28)	(50)
Profit attributable to owners	**90**	179	30

The basic earnings per share of 52.3p (half year ended 30 June 2010: 135.6p; year ended 31 December 2010: 20.1p) has been based on the profit of £90 million (half year ended 30 June 2010: £179 million; year ended 31 December 2010: £30 million) and a weighted average number of ordinary shares outstanding during the period of 172 million (half year ended 30 June 2010: 132 million; year ended 31 December 2010: 149 million), calculated as follows:

	Half year ended 30 Jun 2011 No. million	Half year ended 30 Jun 2010 No. million	Year ended 31 Dec 2010 No. million
Issued ordinary shares at beginning of the period	**171**	130	130
Effect of ordinary shares issued/redeemed	**1**	2	19
Weighted average number of ordinary shares	**172**	132	149

The diluted earnings per share of 52.3p (half year ended 30 June 2010: 135.6p; year ended 31 December 2010: 20.1p) has been based on the profit of £90 million (half year ended 30 June 2010: £179 million; year ended 31 December 2010: £30 million) and a diluted weighted average number of ordinary shares outstanding during the year of 172 million (half year ended 30 June 2010: 132 million; year ended 31 December 2010: 149 million), calculated as follows:

	Half year ended 30 Jun 2011 No. million	Half year ended 30 Jun 2010 No. million	Year ended 31 Dec 2010 No. million
Weighted average number of ordinary shares	**172**	132	149
Effect of warrants in issue	**–**	–	–
Weighted average number of ordinary shares (diluted)	**172**	132	149

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 IPO warrants, the exercise price of which was increased from €7 to €11 on 2 September 2009.

None of these instruments have been considered dilutive in the six month period ended 30 June 2011 due to the exercise price of the warrants being significantly higher than the share price of the Company.

6. Share capital

	30 Jun 2011 £	30 Jun 2010 £	31 Dec 2010 £
Authorised:			
410 million (30 June 2010: 300 million; 31 December 2010: 410 million) ordinary shares of €0.0001 each	**31,750**	22,050	31,750
Nil (30 June 2010: 110 million; 31 December 2010: nil) 'B' ordinary shares of €0.0001 each	**–**	9,700	–
	31,750	31,750	31,750
Issued and fully paid:			
172.6 million (30 June 2010: 80.4 million; 31 December 2010: 171.5 million) ordinary shares of €0.0001 each	**14,001**	6,067	13,904
Nil (30 June 2010: 52.0 million; 31 December 2010: nil) 'B' ordinary shares of €0.0001 each	**–**	4,576	–
	14,001	10,643	13,904

Movements in share capital during the period:

2011

	Number	£
Shares in issue at 1 January	171,455,610	13,904
Ordinary shares issued for scrip dividend (note 7)	1,086,927	96
Other ordinary shares issued in the period	11,178	1
Shares in issue at 30 June	**172,553,715**	**14,001**

2010

	Number	£
Shares in issue at 1 January	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	132,462,855	10,643
Ordinary shares issued on conversion of contingent rights over shares	32,400,000	2,677
Ordinary shares issued for scrip dividend	1,567,416	138
Ordinary shares issued in connection with Alternative Coupon Satisfaction Mechanism	5,020,000	445
Other ordinary shares issued in the period	5,339	1
Shares in issue at 31 December	171,455,610	13,904

7. Dividends on ordinary shares

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Dividend declared and paid in 2011 at 21p per share (half year ended 30 June 2010: 15p; year ended 31 December 2010: 36p)	**36**	20	54

On 29 March 2011, the Board recommended a dividend of £0.21 per share in respect of the year ended 31 December 2010. The dividend was approved at the Company's Annual General Meeting, which was held on 13 May 2011. A scrip dividend option was available to shareholders and the dividend was settled on 17 May 2011. The value of the dividend that was settled via the scrip dividend option was £7 million.

8. Non-controlling interests

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

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
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
Profit for the period	11	11	22
Dividends paid	–	(11)	(11)
Coupons paid, net of tax relief	(23)	–	(23)
Effect of share transactions	–	(1)	(1)
At 31 December 2010	411	309	720

8.1 Perpetual Reset Capital Securities

On 1 January 2011, Pearl Group Holdings (No.1) Limited ("PGH1") had in issue £425 million Perpetual Reset Capital Securities ("the Notes"). On 25 April 2011, the 2011 coupon that was due on the notes was settled in full by PGH1 other than to two companies within the Group which waived their right to receive that coupon.

8.2 UK Commercial Property Trust Limited

UK Commercial Property Trust Limited is a property investment subsidiary which is domiciled in Guernsey and is admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

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 2011 respectively. The net economic surplus of the PGL Pension Scheme amounted to £154 million (30 June 2010: £143 million, 31 December 2010: £133 million); this has been adjusted to eliminate on consolidation the carrying value of insurance policies held by the scheme of £74 million (30 June 2010: £71 million, 31 December 2010: £74 million) in deriving the reported surplus/(deficit) of the scheme.

In June 2011 the trustees of both the PGL Pension Scheme and the Pearl Staff Pension Scheme signed deeds of amendment to the defined benefit pension schemes, which closed both schemes to future accrual by active members. Thus, the active members will become deferred members of the defined benefit pension scheme and their future service will not qualify for benefits under the schemes. As a result of this, the Group has recognised a curtailment gain, relating to a release from future liabilities, of £10 million, which has been recognised in the income statement during the period.

10. Liabilities under insurance contracts – assumptions

Valuation of participating insurance and investment contracts

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

Valuation of non-participating insurance contracts

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

Process used to determine assumptions

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

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

During the period, no material changes were made to assumptions. The impacts of material changes during the prior periods were as follows:

	Increase/ (decrease) in insurance liabilities 30 Jun 2011 £m	Increase/ (decrease) in insurance liabilities 30 Jun 2010 £m	Increase/ (decrease) in insurance liabilities 31 Dec 2010 £m
Change in longevity assumptions	**–**	–	(43)
Change in persistency assumptions	**–**	13	35
Change in expense assumption	**–**	–	10

11. Borrowings

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Carrying value			
Limited recourse bonds 2012 7.39%	**28**	46	29
Limited recourse bonds 2022 7.59%	**94**	83	94
£779 million loan	**–**	748	757
£15 million loan	**–**	11	14
£4 million loan	**–**	4	4
Refinancing loan	**226**	253	234
£80 million facility agreement	**80**	42	42
£150 million term facility	**25**	–	–
Total policyholder borrowings	**453**	1,187	1,174
£200 million 7.25% unsecured subordinated loans	**131**	123	127
Unsecured loan notes	**9**	14	12
£2,260 million syndicated loan	**2,055**	2,238	2,138
£100 million PIK notes and facility	**109**	104	106
£75 million secured loan note	**72**	70	72
£425 million syndicated loan	**375**	399	399
Total shareholder borrowings	**2,751**	2,948	2,854
Total borrowings	**3,204**	4,135	4,028

On 21 March 2011, the £779 million loan, £15 million loan and £4 million loan were all fully settled for consideration of £782 million as part of the restructure of a £1.2 billion portfolio of corporate loans.

On 31 March 2011, a prepayment of £21 million was made on the £2,260 million syndicated loan and on 30 April 2011 a scheduled repayment of £62 million was also made on the same facility.

On 30 June 2011, a scheduled repayment of £24 million was made on the £425 million syndicated loan.

In 2011, UK Commercial Property Trust Limited ("UKCPT") fully utilised the £80 million facility agreement and entered into an £150 million investment term loan facility agreement. These drawdowns were in order to increase the property portfolio. The £150 million investment term loan facility agreement accrues interest at LIBOR plus a variable margin of 1.60% to 2.25% per annum. The lender holds security over the assets of UK Commercial Property Estates Holdings Limited and UK Commercial Property Estates Limited, both of which are subsidiaries of UKCPT. The repayment date for this facility is 19 May 2018.

12. Fair value hierarchy

12.1 Fair value hierarchy of financial instruments measured at fair value

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

At 30 June 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	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				
Derivatives	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 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	24	3,084	89	3,197
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	11,667	–	793	12,460
Fixed and variable rate income securities	34,336	5,816	747	40,899
Collective investment schemes	5,786	1,042	316	7,144
	51,789	6,858	1,856	60,503
Total financial assets at fair value	51,813	9,942	1,945	63,700
Financial liabilities at fair value				
Derivatives	1	2,419	11	2,431
Financial assets designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	–	8,849	–	8,849
Borrowings	–	234	–	234
Net asset value attributable to unit holders	1,769	–	168	1,937
	1,769	9,083	168	11,020
Total financial liabilities at fair value	1,770	11,502	179	13,451

12.2 Movement in Level 3 financial instruments measured at fair value

	At 1 Jan 2011 £m	Total gains/ (losses) in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 30 Jun 2011 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets at fair value through profit or loss – held for trading						
Derivatives	**89**	**(3)**	**–**	**–**	**86**	**(204)**
Financial assets designated at fair value through profit or loss upon initial recognition						
Equities	**793**	**32**	**(16)**	**–**	**809**	**(12)**
Fixed and variable rate securities	**747**	**70**	**(75)**	**(169)**	**573**	**(52)**
Collective investment schemes	**316**	**1**	**(54)**	**1**	**264**	**(13)**
	1,856	**103**	**(145)**	**(168)**	**1,646**	**(77)**
Total financial assets	**1,945**	**100**	**(145)**	**(168)**	**1,732**	**(281)**

	At 1 Jan 2011 £m	Total (gains)/ losses in income statement £m	Purchases and sales £m	Transfers from/(to) Level 1 and Level 2 £m	At 30 Jun 2011 £m	Unrealised (gains)/ losses on liabilities held at end of period £m
Financial liabilities at fair value through profit or loss – held for trading						
Derivatives	11	–	–	–	11	11
Financial liabilities designated at fair value through profit or loss upon initial recognition						
Net asset value attributable to unit holders	168	(1)	–	–	167	42
	179	(1)	–	–	178	53

	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						
Derivatives	–	(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	143	(87)	(504)	2,100	68
Total financial assets	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 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 unit holders	154	14	–	–	168	43
	154	14	–	–	168	43

At 31 December 2010	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 31 Dec 2010 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets						
Derivatives	–	(22)	111	–	89	(202)
Financial assets designated at fair value through profit or loss upon initial recognition						
Equities	1,494	64	(766)	1	793	19
Fixed and variable rate securities	819	(43)	32	(61)	747	150
Collective investment schemes	235	97	152	(168)	316	214
	2,548	118	(582)	(228)	1,856	383
Total financial assets	2,548	96	(471)	(228)	1,945	181

	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 31 Dec 2010 £m	Unrealised (gains)/ losses on liabilities held at end of period £m
Financial liabilities at fair value through profit or loss – held for trading						
Derivatives	–	(5)	–	16	11	11
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	9	–	16	179	54

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 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Profit for the period before tax	**94**	196	11
Non-cash movements in profit for the period before tax			
Fair value (gains)/losses on:			
Investment property	**(16)**	(62)	(87)
Financial assets	**203**	(539)	(3,324)
Fair value (losses)/gains on:			
Borrowings	**18**	(15)	12
Depreciation of property, plant and equipment	**7**	1	3
Amortisation of intangible assets	**76**	83	165
Change in present value of future profit	**6**	–	(7)
Change in unallocated surplus	**29**	(6)	143
Change in deposit received from reinsurers	**(11)**	1	(12)
Share-based payment charge	**–**	1	(3)
Interest expense on borrowings	**131**	123	269
Net expected return on pension assets	**6**	10	18
Foreign currency exchange gains	**–**	–	(10)
Decrease/(increase) in investment assets	**1,687**	1,377	(1,308)
Decrease/(increase) in reinsurance assets	**52**	(74)	(69)
(Decrease)/increase in insurance contract and investment contract liabilities	**(1,055)**	(934)	423
(Decrease)/increase in obligation for repayment of collateral received	**(9)**	(334)	6,054
Net (increase)/decrease in working capital	**(33)**	876	1,114
Cash generated by operations	**1,185**	704	3,392

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 2010.

There were no other transactions with related parties during the six months ended 30 June 2011 which have had a material effect on the results or financial position of the Group.

15. Contingent liabilities

London Life Limited 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 £28 million (30 June 2010: £20 million; 31 December 2010: £27 million) exists if London Life Limited is required to transfer this working capital back to policyholder funds.

16. Events after the reporting period

On 24 August 2011, the Board declared an interim dividend per share of 21p for the half year ended 30 June 2011. The cost of this dividend has not been recognised as a liability in the interim financial statements for the period to 30 June 2011 and will be charged to the statement of changes in equity.

Additional life company asset disclosures

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

The following table provides an overview of the exposure by asset category of the Group's life companies' shareholder and policyholder funds as at 30 June 2011:

Carrying value	Shareholder and non-profit funds[1] £m	Participating[1] supported £m	Participating[2] non-supported £m	Unit-linked[2] £m	Total[3] £m
Cash deposits	2,650	2,144	5,441	1,007	11,242
Debt securities – gilts	2,974	4,632	7,742	891	16,239
Debt securities – bonds	7,127	5,355	7,783	885	21,150
Equity securities	401	818	6,621	8,438	16,278
Property investments	153	132	887	339	1,511
Other investments[4]	799	586	1,895	12	3,292
As at 30 June 2011	**14,104**	**13,667**	**30,369**	**11,572**	**69,712**

1 Includes assets where shareholders of the life companies bear the investment risk.

2 Includes assets where policyholders bear most of the investment risk.

3 This information is presented on a look through basis to underlying funds where available. The analysis is provided based on the country of the parent entity, which may not in all cases directly correspond to the key area of operation.

4 Includes repurchase loans of £1,772 million, policy loans of £47 million, net derivatives of £509 million and other investments of £964 million.

The following table sets out the exposure by type of debt security of the life companies as at 30 June 2011:

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	2,974	4,632	7,742	891	16,239
Other government and supranational	1,438	1,259	1,531	197	4,425
Corporate – financial institutions	2,088	2,025	2,745	251	7,109
Corporate – other	3,358	1,338	2,163	424	7,283
Asset backed securities	243	733	1,344	13	2,333
As at 30 June 2011	**10,101**	**9,987**	**15,525**	**1,776**	**37,389**

The following table sets out a breakdown of the life companies' sovereign debt security holdings by country as at 30 June 2011:

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**2,974**	**4,632**	**7,742**	**891**	**16,239**
European Investment Bank	**524**	**573**	**612**	**78**	**1,787**
Germany	**636**	**431**	**591**	**32**	**1,690**
USA	**40**	**134**	**89**	**28**	**291**
Italy	**89**	**24**	**90**	**9**	**212**
France	**56**	**10**	**35**	**4**	**105**
Netherlands	**33**	**10**	**31**	**5**	**79**
Spain	**22**	**24**	**21**	**2**	**69**
Portugal	**–**	**–**	**10**	**–**	**10**
Luxembourg	**–**	**–**	**–**	**4**	**4**
Ireland	**2**	**–**	**–**	**–**	**2**
Greece	**–**	**–**	**–**	**–**	**–**
Other	**36**	**53**	**52**	**35**	**176**
As at 30 June 2011	**4,412**	**5,891**	**9,273**	**1,088**	**20,664**

The following table sets out a breakdown of the life companies' financial institution corporate debt security holdings by country as at 30 June 2011:

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	**944**	**1,208**	**1,290**	**123**	**3,565**
USA	**307**	**272**	**385**	**22**	**986**
Netherlands	**228**	**121**	**306**	**57**	**712**
France	**195**	**75**	**219**	**25**	**514**
Spain	**102**	**65**	**138**	**10**	**315**
Germany	**78**	**7**	**51**	**–**	**136**
Ireland	**12**	**81**	**16**	**–**	**109**
Italy	**35**	**24**	**38**	**–**	**97**
Portugal	**–**	**–**	**–**	**–**	**–**
Greece	**–**	**–**	**–**	**–**	**–**
Other	**187**	**172**	**302**	**14**	**675**
As at 30 June 2011	**2,088**	**2,025**	**2,745**	**251**	**7,109**

The following table sets out a breakdown of the life companies' corporate – other debt security holdings by country as at 30 June 2011:

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	969	496	891	296	2,652
USA	650	195	289	28	1,162
France	392	176	253	14	835
Germany	287	170	181	18	656
Spain	100	50	98	15	263
Italy	97	35	82	8	222
Luxembourg	173	3	13	5	194
Netherlands	102	19	41	1	163
Ireland	30	9	16	3	58
Greece	7	–	–	–	7
Portugal	–	–	–	–	–
Other	551	185	299	36	1,071
As at 30 June 2011	3,358	1,338	2,163	424	7,283

The following table sets out a breakdown of the life companies' ABS holdings by country as at 30 June 2011:

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	211	585	1,002	13	1,811
Netherlands	13	44	121	–	178
Ireland	–	31	95	–	126
USA	19	21	17	–	57
Spain	–	14	38	–	52
Italy	–	9	28	–	37
France	–	8	19	–	27
Portugal	–	–	–	–	–
Other	–	21	24	–	45
As at 30 June 2011	243	733	1,344	13	2,333

The following table sets out the credit rating analysis of the shareholder and non-profit funds' corporate and asset backed securities:

Carrying value	Shareholder and non-profit funds £m
AAA	457
AA	511
A	1,731
BBB	1,373
BB	337
B and below	710
Non-rated	570
As at 30 June 2011	5,689

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.

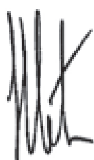
The MCEV methodology adopted by the Group is in accordance with these MCEV principles with the exception of:

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

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

Specifically, the Directors have:

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



Clive Bannister Group Chief Executive	Jonathan Yates Group Finance Director

St Helier
24 August 2011

Auditor's review report

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

We have been engaged by the Company to review the Consolidated Phoenix Group MCEV ('Group MCEV') in the Interim Report for the half year ended 30 June 2011 which comprises the Summarised consolidated income statement – Group MCEV basis, MCEV earnings per ordinary share, Statement of consolidated comprehensive income – Group MCEV basis, Reconciliation of movement in equity – Group MCEV basis, Group MCEV analysis of earnings, Reconciliation of Group IFRS equity to MCEV net worth and related notes on pages 60 to 72. 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 2011. 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 64 to 66.

Our responsibility

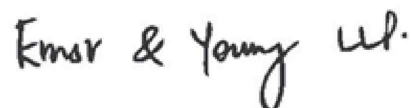
Our responsibilities for the Phoenix Group Holdings MCEV are set out in our engagement letter with you dated 15 June 2011. We report to you our opinion as to whether the Phoenix Group Holdings MCEV in the Interim Report has been properly prepared, in all material respects, in accordance with the Basis of preparation set out on pages 64 to 66.

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 2011 has not been prepared, in all material respects, in accordance with the Basis of preparation as set out on pages 64 to 66.



Ernst & Young LLP
London
24 August 2011

MCEV interim financial statements and notes

Summarised consolidated income statement – Group MCEV basis
for the half year ended 30 June 2011

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Life MCEV operating earnings	**229**	304	758
Management services operating profit	**10**	7	20
IGNIS Asset Management operating profit	**18**	22	46
Group costs	**(48)**	(33)	(70)
Group MCEV operating earnings before tax	**209**	300	754
Economic variances on covered business	**(5)**	106	101
Economic variances on non-covered business	**(5)**	(14)	(38)
Other non-operating variances on covered business	**(1)**	12	(54)
Non-recurring items on non-covered business	**18**	(34)	(75)
Finance costs attributable to owners	**(75)**	(81)	(168)
Group MCEV earnings before tax	**141**	289	520
Tax on operating earnings	**(56)**	(84)	(211)
Tax on non-operating earnings	**27**	(13)	(54)
Total tax	**(29)**	(97)	(265)
Group MCEV earnings after tax	**112**	192	255

MCEV earnings per ordinary share
for the half year ended 30 June 2011

	Half year ended 30 Jun 2011	Half year ended 30 Jun 2010	Year ended 31 Dec 2010
Group MCEV operating earnings after tax			
Basic[1]	**89.0**	163.4p	363.2p
Diluted[2]	**89.0**	163.4p	363.2p
Group MCEV earnings after tax			
Basic[1]	**65.1**	145.2p	170.6p
Diluted[2]	**65.1**	145.2p	170.6p

1 Based on 172 million shares (half year ended 30 June 2010: 132 million; year ended 31 December 2010: 149 million) as set out in note 5 of the IFRS condensed consolidated interim financial statements.

2 Based on 172 million shares (half year ended 30 June 2010: 132 million; year ended 31 December 2010: 149 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 average UK corporate tax rate of 26.5% (half year ended 30 June 2010: 28%; year ended 31 December 2010: 28%).

Statement of consolidated comprehensive income – Group MCEV basis

for the half year ended 30 June 2011

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Group MCEV earnings after tax	**112**	192	255
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension scheme	**13**	(45)	27
Total comprehensive income	**125**	147	282

Reconciliation of movement in equity – Group MCEV basis

for the half year ended 30 June 2011

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Opening Group MCEV equity	**2,104**	1,827	1,827
Total comprehensive income	**125**	147	282
Issue of share capital	**–**	–	33
Conversion of warrants into ordinary shares	**–**	7	7
Movement in equity for equity-settled share-based payments	**3**	1	(2)
Dividends paid on ordinary shares	**(36)**	(20)	(54)
Shares issued in lieu of dividends	**7**	–	11
Closing Group MCEV equity	**2,203**	1,962	2,104

Group MCEV analysis of earnings

for the half year ended 30 June 2011

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

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

For the half year ended 30 Jun 2010

	Covered business MCEV £m	Non-covered business: Management services IFRS £m	Non-covered business: Asset Management IFRS £m	Non-covered business: Other Group companies IFRS £m	Group MCEV £m
Group MCEV at 1 January 2010	4,731	56	39	(2,999)	1,827
Operating MCEV earnings (post-taxation)	219	5	16	(24)	216
Non-operating MCEV earnings (post-taxation)	85	(16)	–	(93)	(24)
Total MCEV earnings	304	(11)	16	(117)	192
Other movements	–	–	–	(45)	(45)
Capital and dividend flows – internal	(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

Group MCEV analysis of earnings
for the year ended 31 Dec 2010

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management IFRS £m	Other Group companies IFRS £m	Group MCEV £m
Group MCEV at 1 January 2010	4,731	56	39	(2,999)	1,827
Operating MCEV earnings (post-taxation)	546	14	33	(50)	543
Non- operating MCEV earnings (post-taxation)	34	(54)	–	(268)	(288)
Total MCEV earnings	580	(40)	33	(318)	255
Other movements	–	–	–	27	27
Capital and dividend flows – internal	(794)	64	(18)	748	–
Capital and dividend flows – external	–	–	–	(5)	(5)
Closing value at 31 December 2010	4,517	80	54	(2,547)	2,104

Reconciliation of Group IFRS equity to MCEV net worth

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Group net assets attributable to owners of the parent as reported under IFRS	**1,670**	1,682	1,580
Goodwill and other intangibles in accordance with IFRS removed (net of tax)	**(425)**	(395)	(391)
Value of in-force business in accordance with IFRS removed (net of tax)	**(1,316)**	(1,377)	(1,345)
Adjustments to IFRS reserving	**(157)**	(120)	(138)
Tax adjustments	**(63)**	(124)	(90)
Revalue listed debt to market value	**82**	138	94
Eliminate value of contingent loan asset[1]	**(218)**	(251)	(276)
Fair value adjustments[2]	**28**	(15)	5
Eliminate pension scheme surplus[3] (net of tax)	**(142)**	(135)	(112)
Other adjustments	**18**	3	30
MCEV net worth attributable to owners of the parent	**(523)**	(594)	(643)
MCEV value of in-force business included (net of tax) as set out in note 2	**2,726**	2,556	2,747
Closing Group MCEV	**2,203**	1,962	2,104

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 Pension scheme net of tax and before the deduction of Group insurance policies eliminated on consolidation, as described in note 9 of the IFRS condensed consolidated interim financial statements.

Notes to the MCEV financial statements

1. Basis of preparation

Overview
The supplementary information on pages 60 to 72 has been prepared on a Market Consistent Embedded Value ('MCEV') basis except for the items described further below.

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

- risk-free rates have been defined as the annually compounded UK Government nominal spot curve plus 10 basis points rather than as a swap rate curve;
- no allowance for the cost of residual non-hedgeable risk ('CNHR') has been made because, in the opinion of the Directors, the Group operates a robust outsourcer model in terms of operational risk, does not write new business, is focused entirely on the back book, and has succeeded in closing out significant legacy risks. The theoretical value of CNHR is disclosed separately in note 1 (b); and
- the asset management and management service companies 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.

A gradual reduction in the UK corporation tax rate from 28% to 24% over a 4 year period was announced in the Emergency Budget of 22 June 2010 with a further 1% reduction announced in the Budget of 23 March 2011. The Finance (No. 2) Act 2010 included the first of the 1% rate reductions with effect from April 2011 and a further 1% reduction was substantively enacted on 29 March 2011 under the Provisional Collection of Taxes Act 1968, with further reductions to be dealt with by future legislation. The MCEV includes the impact of the tax rate being reduced to 26%. The impact of the further 3% reduction of rate is not expected to be material.

On 23 March 2011, HMRC issued a technical note on 'Solvency II and the Taxation of Insurance Companies', outlining changes to the taxation of UK insurance companies with effect from 2013. The Group has been actively involved in consulting with HMRC and HM Treasury on the detail of the new rules, with the aim of ensuring that the Group's policyholders and shareholders are as far as possible not adversely affected by the changes.

The timing of the announcement and the complexity of the proposed changes means that it has not been possible to estimate their potential future impact on the Group MCEV.

Covered business
The MCEV calculations cover all long-term insurance business written by the Group, but exclude IGNIS Asset Management and the management service companies.

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

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

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

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

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

b) Value of in-force business ('VIF')
The 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 value of in-force business 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.

Required capital is defined as the minimum regulatory capital requirement, which is the greater of Pillar 1 and Pillar 2 capital requirements, plus the capital required under the Group's capital management policy.

This equates to 117% (30 June 2010: 120%; 31 December 2010: 119%) of the minimum regulatory capital requirement.

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

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

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

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

For with-profits business the CNHR would increase the TVFOGs by £68 million (30 June 2010: £64 million; 31 December 2010: £64 million).

For other business the cost would be £135 million (30 June 2010: £137 million; 31 December 2010: £137 million). This equates to an equivalent average cost of capital charge of 1.2% (30 June 2010: 1.5%; 31 December 2010: 1.2%). The level of capital assumed in this calculation is determined based on a 99.5% 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 recourse bonds are backed by surpluses that are expected to emerge on blocks of its unit-linked and unitised with-profits business. This securitisation has been valued on a cash flow basis, allowing for payments expected to be due based on the projected level of securitised surpluses emerging. The full VIF of the securitised unit-linked and unitised with-profits business is expected to be payable to bondholders; therefore, no additional value accrues to the embedded value.

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

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

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

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

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

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

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

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

2. Components of the MCEV of covered business

	Half year ended 30 Jun 2011 £m	Half year ended 30 Jun 2010 £m	Year ended 31 Dec 2010 £m
Net worth	**1,478**	1,909	1,770
PVFP	**2,935**	2,882	3,022
TVFOG	**(73)**	(97)	(113)
COC	**(136)**	(229)	(162)
Total VIF	**2,726**	2,556	2,747
	4,204	4,465	4,517

The net worth of covered business of £1,478 million at 30 June 2011 consists of £383 million of free surplus in excess of required capital (30 June 2010: £534 million; 31 December 2010: £670 million). This does not include the IFRS net assets of management services of £85 million (30 June 2010: £61 million; 31 December 2010: £80 million) as shown in the free surplus reconciliation for Phoenix Life on page 7.

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

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

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

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

	Half year ended 30 Jun 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 to net worth	88	(88)	–
Experience variances	58	16	74
Assumption changes	(10)	(2)	(12)
Other operating variances	(24)	20	(4)
Life MCEV operating 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

	Year ended 31 Dec 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	16	3	19
Expected existing business contribution (reference rate)	102	122	224
Expected existing business contribution (in excess of reference rate)	43	39	82
Transfer from VIF to net worth	145	(145)	–
Experience variances	35	229	264
Assumption changes	53	(91)	(38)
Other operating variances	(28)	23	(5)
Life MCEV operating earnings	366	180	546
Economic variances	(94)	167	73
Other non-operating variances	58	(97)	(39)
Total Life MCEV earnings	330	250	580
Capital and dividend flows	(794)	–	(794)
Life MCEV at 31 December 2010	1,770	2,747	4,517

4. New business

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

	Premium £m	MCEV £m	MCEV/ Premium %
Half year ended 30 Jun 2011	**148**	**8**	**5%**
Half year ended 30 Jun 2010	211	11	5%
Year ended 31 Dec 2010	388	19	5%

5. Maturity profile of business

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

Present value of future profits (PVFP)	1-5 £m	6-10 £m	11-15 £m	16-20 £m	20+ £m	Years Total
30 Jun 2011	**1,136**	**778**	**510**	**253**	**258**	**2,935**
30 Jun 2010	930	791	539	301	321	2,882
31 Dec 2010	1,147	848	488	271	268	3,022

6. Assumptions

Reference rates

(a) Risk-free rates
Risk-free rates are based on the annually compounded UK Government bond nominal spot curve plus ten basis points, extrapolated as necessary to meet the term of the liabilities. 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 2011		30 Jun 2010		31 Dec 2010	
Term	**Gilt Yield +10 bps**	**Swap Yield**	Gilt Yield +10 bps	Swap Yield	Gilt Yield +10 bps	Swap Yield
1 year	**0.82%**	**0.93%**	0.71%	1.12%	0.73%	0.88%
5 years	**2.37%**	**2.57%**	2.36%	2.48%	2.51%	2.69%
10 years	**3.77%**	**3.71%**	3.70%	3.55%	3.79%	3.70%
15 years	**4.46%**	**4.18%**	4.35%	3.97%	4.37%	4.08%
20 years	**4.70%**	**4.32%**	4.59%	4.07%	4.58%	4.17%

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

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

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

	30 Jun 2011	30 Jun 2010	31 Dec 2010
Additional yield over risk-free rates	**0.50%**	0.35%	0.48%

Inflation
For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index ('RPI') as at 30 June 2011 was taken from the implied inflation curve at a term appropriate to the liabilities. The rate of increase in UK National Average Earnings inflation is assumed to be RPI + 100 basis points as at 31 December 2010 (2010: RPI + 100 basis points).

Stochastic economic assumptions

The time value of options and guarantees is calculated using an economic scenario generator. The model is calibrated to market conditions as at 31 December 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 10 basis points, consistent with the deterministic projections. Interest rate volatility is calibrated to swaption implied volatilities, as per the sample below.

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

						Option term (years)
Interest rate volatility	5	10	15	20	25	30
30 Jun 2010 Swap term (years)						
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)
Interest rate volatility	5	10	15	20	25	30
31 Dec 2010 Swap term (years)						
5	17.5%	13.3%	13.6%	13.9%	14.7%	15.1%
10	15.8%	13.5%	13.6%	13.9%	14.5%	14.3%
20	15.2%	13.2%	13.2%	13.0%	13.0%	12.6%
30	14.6%	12.6%	12.2%	11.7%	11.5%	11.2%

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

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

						Term (years)
Equity implied volatility (ATM)	5	10	15	20	25	30
30 Jun 2011	**22.7%**	**23.9%**	**24.2%**	**24.4%**	**24.5%**	**24.6%**
30 Jun 2010	28.3%	29.2%	29.5%	29.7%	29.9%	29.9%
31 Dec 2010	24.3%	26.1%	26.4%	26.7%	26.8%	27.0%

Best estimate levels of volatility are assumed for directly held property. The model implied volatility for 30 June 2011 is 15% (31 December 2010: 15%).

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

Operating earnings
The Group uses normalised investment returns in calculating the expected existing business contribution. The expected contribution on existing business is calculated 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 2011	Half year ended 30 Jun 2010	Year ended 31 Dec 2010
Equities	**3.0%**	3.0%	3.0%
Property	**2.0%**	2.0%	2.0%
Gilts	**0.0%**	0.0%	0.0%

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

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

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

Valuation of debt and non-controlling interests
The Group's consolidated balance sheet as at 30 June 2011 includes Perpetual Reset Capital Securities with a face value of £425 million (2010: £425 million) and subordinated debt with a face value of £200 million (2010: £200 million) in relation to Phoenix Life Limited. These listed securities have been included within the MCEV at their market value quoted at the reporting date.

The table below summarises the value of these debt obligations.

	Half year ended 30 Jun 2011		Half year ended 30 Jun 2010		Year ended 31 Dec 2010	
	Face value (including accrued interest) £m	**Market value £m**	Face value (including accrued interest) £m	Market value £m	Face value (including accrued interest) £m	Market value £m
Listed debt and non-controlling interests						
Perpetual Reset Capital Securities	**430**	**304**	463	267	444	304
Phoenix Life Limited subordinated debt	**204**	**166**	204	163	211	170

Unlisted debt has been included at face value.

	Half year ended 30 Jun 2011 Face value £m	Half year ended 30 Jun 2010 Face value £m	Year ended 31 Dec 2010 Face value £m
Unlisted debt			
Pearl and Impala facilities	**2,532**	2,738	2,639
Royal London PIK notes and facility	**109**	104	106

7. Sensitivity to assumptions

The table below summarises the key sensitivities of the MCEV of covered business at 30 June 2011.

	30 Jun 2011 Life MCEV £m
(1) Base	**4,204**
(2) 1% decrease in risk-free rates	**176**
(3) 1% increase in risk-free rates	**(150)**
(4) 10% decrease in equity market values	**(81)**
(5) 10% increase in equity market values	**81**
(6) 10% decrease in property market values	**(81)**
(7) 10% increase in property market values	**81**
(8) 100 bps increase in credit spreads[1]	**(289)**
(9) 100 bps decrease in credit spreads[1]	**266**
(10) 25% increase in equity/property implied volatilities	**(35)**
(11) 25% increase in swaption implied volatilities	**(26)**
(12) 25% decrease in lapse rates and paid-up rates	**(6)**
(13) 5% decrease in annuitant mortality	**(164)**
(14) 5% decrease in non-annuitant mortality	**28**
(15) Required capital equal to the minimum regulatory capital[2]	**37**
(16) Swap curve as reference rate, retaining appropriate liquidity premiums	**(170)**

1 44 bps is assumed to relate to default risk.

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

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

ADDITIONAL INFORMATION

- **Shareholder information**
- **Forward looking statements**

ADDITIONAL INFORMATION

Shareholder information

Annual General Meeting
Our Annual General Meeting was held on 13 May 2011.

The voting results for our 2011 AGM are available on our website at www.thephoenixgroup.com.

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

Computershare Investor Services (Jersey) Limited,
Queensway House,
Hilgrove Street,
St Helier,
Jersey JE4 9XY.

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

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

Group Financial Calendar for 2011

Announcement of unaudited six months' interim results	25 August 2011
Announcement of third quarter interim management statement	8 November 2011

2011 Interim Dividend

Scrip mandate forms issued	5 September 2011
Ex-dividend date	7 September 2011
Record date	9 September 2011
Scrip calculation period	7-13 September 2011
Scrip election date	26 September 2011
Interim 2011 dividend payment date	7 October 2011

The Company currently offers a scrip dividend alternative. Shareholders will be sent an information booklet which will detail the terms of the scrip dividend alternative on or around 5 September 2011. 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 5pm on 26 September 2011.

2011 Annual Results
Our financial results for the year ended 31 December 2011 will be announced on 23 March 2012.

Forward looking statements

The Interim 2011 Report contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

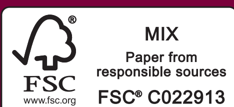
Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are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

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

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within the Interim Report 2011 for the Half Year ended 30 June 2011.

The Group undertakes no obligation to update any of the forward-looking statements contained within the Interim Report 2011 for the Half Year ended 30 June 2011or any other forward-looking statements it may make.

The Interim Report 2011 for the Half Year ended 30 June 2011 has been prepared for the members of the Company and no one else. The Company, its Directors or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Nothing in the Interim Report 2011 for the Half Year ended 30 June 2011 is, or should be construed as a profit forecast.



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