PHOENIX GROUP

18 March 2015

PHOENIX GROUP DELIVERS STRONG FULL YEAR FINANCIAL PERFORMANCE

Phoenix Group, the UK's largest specialist closed life fund consolidator, today announces a strong set of results for the year ended 31 December 2014, with cash generation ahead of the target range and £261 million of incremental embedded value achieved.

Financial Highlights

- Operating companies' cash generation of £567 million (2013: £817 million), above the top end of the £500 – 550 million target range. A further £390 million was received on completion of the divestment of Ignis, resulting in full year cash generation of £957 million
- Market Consistent Embedded Value ('MCEV') increased to £2,647 million as at 31 December 2014 (2013 : £2,378 million)
- Delivered MCEV enhancing management actions of £261 million, a significant part of the £300 million target between 2014 – 2016
- Strong Group IFRS operating profit of £483 million (2013: £439 million)
- £988 million of cash at holding companies as at 31 December 2014 (2013: £995 million)
- IGD surplus of £1.2 billion as at 31 December 2014 (2013: £1.2 billion)
- PLHL ICA surplus of £0.7 billion as at 31 December 2014 (2013: £1.2 billion)
- 2014 final dividend of 26.7p per share, in line with 2013 final dividend

Comprehensive debt refinancing significantly strengthening balance sheet

- Total debt repayment of £601 million in 2014
- Gearing(4) reduced to 34% as at 31 December 2014 (2013: 44%)
- Bank margin reduced by 37.5 bps to 312.5bps due to reduction in Financial Leverage(5)
- £300 million unsecured 7 year bond issue
- Refinancing of the Group's remaining senior bank debt and PIK notes into a single £900 million facility
- Exchange offer of Tier 1 bonds into new subordinated notes with a maturity of 2025 completed in January 2015, with a 99% take up rate by bondholders

Operational Highlights

- Distributed £185 million of estate to a total of 95,000 policyholders through final bonuses on their with-profits policies
- Vesting customers given options to take full advantage of the extensive changes introduced by the 2014 Budget
- Completed Phoenix Life transformation with outsourcing partner HSBC to consolidate investment fund accounting, unit pricing and custody arrangements

Solvency II

- Although there remains considerable uncertainty with regard to the implementation of and transition to Solvency II, the Group is currently on track to formally apply for regulatory approval of its Internal Model in June 2015
- Expect to be well capitalised under the new Solvency II regime, with the Group capital position under Solvency II expected to be in excess of the current PLHL ICA surplus, subject to regulatory approval

Financial Targets

- Given the current uncertainty in relation to the transition to Solvency II capital regime, 2015 cash generation target range is £200 – 250 million due to the retention of capital in the life companies in the short term
- Long-term operating companies' cash generation target for 2014 – 2019 unchanged at £2.8 billion, supporting the Group's stable and sustainable dividend policy
- Cumulative incremental MCEV target increased by £100 million to £400 million between 2014 – 2016
- In future, gearing will be managed to a level consistent with the achievement and maintenance of an investment grade rating

Commenting on the results, Group CEO, Clive Bannister said:

"2014 was a strong year of performance for Phoenix. We met or exceeded all our financial targets, while making considerable strategic progress, significantly reducing our gearing level and achieving a comprehensive debt restructuring. We also successfully completed the sale of Ignis to Standard Life Investments. All of this leaves the group in a sound financial position as we transition to Solvency II, enabling us to focus our efforts on seeking an investment grade rating and growing Phoenix through closed life acquisitions, thereby delivering more value to both customers and shareholders."

Presentation

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

J.P.Morgan, John Carpenter Street, London, EC4Y 0JP

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

A replay of the presentation will also be available through the website.

Participants may also dial in as follows:

UK	020 3059 8125
International	+44 20 3059 8125
Participant password:	'Phoenix'

Dividend

The recommended final dividend of 26.7p per share is expected to be paid on 27 April 2015, subject to shareholder approval at Phoenix Group Holdings' AGM.

The ordinary shares will be quoted ex-dividend on the London Stock Exchange as of 26 March 2015. The record date for eligibility for payment will be 27 March 2015.

Enquiries

Investors / analysts

Sam Perowne

Head of Investor Relations, Phoenix Group — +44 (0)20 3735 0021

Media

Neil Bennett, Peter Ogden, Tom Eckersley,

Maitland — +44 (0)20 7379 5151

Notes

1. Phoenix Group is the UK's largest specialist consolidator of closed life funds with 5 million customers and £52 billion of life company assets.
2. Operating companies' cash generation is a measure of cash and cash equivalents, remitted by the Group's operating subsidiaries to the holding companies and is available to cover dividends, bank interest and other items.
3. Financial targets are based on the assumption that the Solvency II regulations operate as we expect.
4. Gearing calculated as gross shareholder debt (Gearing basis) as a percentage of gross MCEV. Gross shareholder debt (Gearing basis) is defined as the sum of the IFRS carrying value of shareholder debt and 50% of the IFRS carrying value of the Tier 1 Notes given the hybrid nature of that instrument. Gross MCEV is the sum of the Group MCEV and the value of the shareholder and hybrid debt as included in the MCEV.
5. Financial Leverage calculated as gross shareholder debt (Financial Leverage basis) as a percentage of gross MCEV. The definition of gross shareholder debt (Financial Leverage basis) differs from that used in the Gearing ratio, as the debt instruments are included at their notional face values as opposed to their IFRS carrying values. The Tier 1 bonds are included at 100% of their face value. Gross MCEV is calculated on a consistent basis to the Gearing ratio calculation.
6. Any references to IGD Group, IGD sensitivities, IGD or PLHL ICA relate to the relevant calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking.
7. The financial information set out in this announcement has been extracted without material adjustment from the Annual Report and Accounts of Phoenix Group Holdings for the year ended 31 December 2014. The Ernst & Young Accountants LLP audit opinion on the Phoenix Group Holdings consolidated IFRS financial statements is unqualified.

8. This announcement in relation to Phoenix Group Holdings and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.
9. Statements containing the words: 'believes', 'intends', 'will', 'expects', 'plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that the Group has estimated.
10. Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and ultimate transition to the European Union's "Solvency II" Directive on the Group's capital maintenance requirements; the impact of inflation and deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.
11. 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 and other financial and/or statistical data within this announcement. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this announcement or any other forward-looking statements or data it may make or publish.
12. Nothing in this announcement should be construed as a profit forecast or estimate.

PHOENIX GROUP HOLDINGS
ANNUAL REPORT AND ACCOUNTS 2014

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

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

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

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

EVOLUTION OF THE PHOENIX GROUP

The following shows the Group's original entities and their various acquisitions over the years.

1782

Phoenix Assurance established

1806

London Life established

1835

NPI established

1836

Edinburgh
& Glasgow
Assurance
established

1837

Scottish
Provident
established

1857

Pearl Loan
Company
established

1905

Britannic
Assurance
Company
established

1996

Royal & Sun
Alliance
established

1999

Britannic
acquires
Alba Life

2001

Abbey National
acquires
Scottish
Provident

2004

Resolution Life
Group acquires
UK life operations
of Royal &
Sun Alliance

Britannic
acquires life
operations of
Allianz Cornhill

2005

Pearl Group
created

Resolution
Life Group
acquires
Swiss Life
(UK) plc

Britannic acquires
Century Group
and merges with
Resolution Life
Group to form
Resolution plc

2006

Resolution plc acquires Abbey National's
life business

2008

Pearl Group

acquires
Resolution plc

2009

Liberty Acquisition
Holdings (International)
acquires
Pearl Group

2014 KEY PERFORMANCE INDICATORS

£567m

OPERATING COMPANIES'
CASH GENERATION

£2,647m

GROUP MCEV

34%

GEARING

39.3%

FINANCIAL LEVERAGE

53.4p

DIVIDEND PER SHARE

£483m

GROUP IFRS OPERATING PROFIT

£1.2bn

IGD SURPLUS (ESTIMATED)

£0.7bn

PLHL ICA SURPLUS (ESTIMATED)

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CHAIRMAN'S STATEMENT

"THE ACHIEVEMENTS OF 2014 HAVE POSITIONED PHOENIX GROUP FOR THE FUTURE AND WE HAVE

CONTINUED TO APPLY OUR FINANCIAL AND ACTUARIAL EXPERTISE TO GENERATE VALUE FOR BOTH POLICYHOLDERS AND SHAREHOLDERS."

2014 was a year of significant change, both for Phoenix Group and the wider UK life insurance sector. The impact of changing regulation, with the ending of compulsory annuities announced in the March Budget and the ongoing implementation of the Solvency II regulatory regime, has already been substantial and will continue to develop over the next year.

However, the actions taken by Phoenix Group during 2014 have positioned the Group to make further progress against the background of continued regulatory uncertainty. First, we completed the divestment of Ignis Asset Management ('Ignis') to Standard Life Investments (Holdings) Limited ('Standard Life Investments') for £390 million. This transaction brought significant financial and strategic benefits to the Group, including a reduction in the level of gearing through a £250 million debt prepayment and a strategic alliance with Standard Life Investments. Second, the Group issued a £300 million senior unsecured bond, thereby re-establishing a relationship with the debt capital markets. Finally, we reduced gearing further and unified the two legacy debt silos into a single £900 million unsecured bank facility, simplifying the Group's debt structure and lowering our interest costs.

At our Investor Day in November we focused on the required attributes to manage closed funds efficiently and for the benefit of customers. Phoenix Group's existing operational model, including the extensive use of outsourcer partners, together with a proven expertise in improving customer outcomes, are key competitive advantages for the Group in managing life funds in run-off. We now estimate there are over £300 billion of assets within legacy funds in the UK, and continue to believe there is value to be generated for customers and shareholders by these funds being owned and managed by a specialist consolidator like Phoenix Group. The investment that we have made in our operating model means the Group is well placed to participate in future consolidation of the UK closed life fund market. However, we will only make acquisitions that are value accretive, would at least sustain our current dividend per share and would support our ambition to achieve and maintain an investment grade credit rating.

Phoenix Group has remained focused on financial delivery. The Group has continued its record of meeting or exceeding publicly stated targets and has been particularly successful in enhancing MCEV through management actions. Like other life insurance companies, Phoenix Group will continue to face uncertainties in the future as both the economic environment and the implementation of the Solvency II regulations remain difficult to predict. However, our track record of performance and the quality of our staff provides a solid base to allow us to meet future challenges. We remain focused on delivering good outcomes for our 5 million policyholders who depend on our careful stewardship of their savings.

The Board has recommended a final dividend for 2014 of 26.7p per share. This brings the total dividend for the financial year to 53.4p per share, in line with the dividend paid in respect of the 2013 financial year. Given the long-term run-off nature of the Group's business, the Board believes it is prudent to maintain a stable, sustainable dividend while the Group builds its financial flexibility to execute its growth strategy and meet the external challenges.

During the year, two Non-Executive Directors left the Board, Manjit Dale and David Barnes, and I would like to thank them both for their significant contributions during their tenure. They both brought great insight to the Board. I would also like to welcome Kory Sorenson to the Board as a Director and member of the Board Audit and Remuneration committees. On behalf of the Board, I would also like to extend my thanks to the Phoenix executive team, ably led by Clive Bannister. Without their hard work and commitment, the delivery of the corporate actions achieved during the past year would not have been possible.

Finally, as from the end of August this year I will be stepping down from the Board due to my appointment as Chairman of The Royal Bank of Scotland plc. I have very much enjoyed my time at Phoenix and will look back with real pride at what the business has achieved. I would like to thank the Board and all my colleagues at Phoenix for their support and believe that the Group can look forward to 2015 with great confidence as it moves towards the next stage in its development.

HOWARD DAVIES
CHAIRMAN
17 March 2015

Our operational model is well positioned to support Phoenix's future growth ambitions.

STRATEGIC REPORT

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

"PHOENIX DELIVERED STRONG FINANCIAL PERFORMANCE IN 2014. THE COMPREHENSIVE DEBT RESTRUCTURING ACHIEVED DURING THE YEAR HAS SIGNIFICANTLY STRENGTHENED OUR BALANCE SHEET AND WE HAVE ACHIEVED CASH GENERATION BEYOND THE TOP END OF OUR TARGET RANGE."

INTRODUCTION

Last year saw a number of transformational events for Phoenix Group. Together these have simplified and strengthened our balance sheet, in line with our aim to achieve an investment grade rating in the future, and have enhanced the Group's ability to deliver on our ambition to play a leading role in the consolidation of the UK closed life fund sector.

The divestment of Ignis to Standard Life Investments for £390 million, the raising of a £300 million senior unsecured bond and the simplification of our bank debt into a new, £900 million unsecured facility have been major steps forward in reducing our leverage and positioning ourselves for the next stage in our development.

This positive activity for the Group has been completed against a backdrop of uncertainty for the broader insurance industry, with changes to retirement options as a result of the ending of compulsory annuities announced in the March 2014 Budget and the announcement of the FCA's thematic reviews on annuities and the fair treatment of long-standing customers in life insurance. Furthermore, the implementation of the new Solvency II capital regime has continued to evolve.

As the environment for UK open life insurers has become more challenging, we now believe that the market opportunity for Phoenix Group in the UK is more than £300 billion of assets, increased from our previous estimate of £200 billion. This includes closed or quasi-closed life companies in the UK, plus additional legacy funds that are not writing significant levels of new business. Phoenix Group has the scale, operating model and specialist expertise that will be essential for efficiently managing a wide range of legacy products over time. This will allow us to apply the same skills and management actions to new funds as we have to our existing funds, generating synergies for shareholders and improved outcomes for customers.

FINANCIAL HIGHLIGHTS

DELIVERY OF FINANCIAL TARGETS

At the start of 2014, Phoenix Group set targets against three key metrics: cash generation, incremental MCEV and gearing. During the year, we exceeded our annual cash generation target, executed £261 million of MCEV management actions and achieved our gearing target of 40%.

We generated £567 million of cash from our operating companies in 2014, exceeding our 2014 annual cash generation target of £500 million to £550 million (excluding the proceeds of the Ignis divestment). Against our long-term cash generation target for the period from 2014 to 2019 of £2.8 billion, we have already achieved £957 million (including the proceeds of the Ignis divestment). Today, we reiterate this long-term cash generation target, despite the uncertainties that continue to face the industry with respect to the final Solvency II regulations.

Our year-end MCEV increased by £269 million to £2,647 million, versus £2,378 million at 31 December 2013, driven by the divestment of Ignis and £261 million of incremental value generated through management actions. We have therefore already achieved a large proportion of our MCEV management actions target of £300 million for the period from 2014 to 2016.

We have had a long-term target to reduce our level of gearing to 40% or below by the end of 2016. During 2014, we repaid total debt of £601 million, utilising the proceeds of the Ignis divestment and additional internal resources. With total gearing of 34% as at 31 December 2014, we have met our gearing target and, in the future, we intend to manage our gearing to a level that is consistent with achieving and maintaining an investment grade credit rating. Finally, the reduction in gearing that we have achieved in 2014 has triggered a reduction in the interest margin on our bank facility by 37.5bps to 312.5bps. In the event that the Group successfully achieves an investment grade credit rating there will be a further 50bps margin reduction on the outstanding bank facility.

DIVESTMENT OF IGNIS AND DEBT REFINANCING

The debt reduction and refinancing that the Group has achieved in 2014 consisted of three separate transactions:

- The divestment of Ignis to Standard Life Investments for £390 million in cash, with £250 million of the proceeds used to prepay bank debt
- The issue of a £300 million seven-year unsecured senior bond at an annual coupon of 5.75% from the Group's new financing subsidiary, PGH Capital Limited. The net proceeds from the bond were used to prepay existing bank debt
- The refinancing of the Group's remaining senior bank debt and PIK notes into a five-year £900 million unsecured bank facility borrowed by PGH Capital Limited. The new facility was agreed with a core set of lending banks, which included some new lenders, and as part of the bank refinancing a further prepayment of £206 million of existing debt was made, financed by internal resources.

We have therefore replaced the Group's complex bank and senior debt, which previously consisted of two debt silos as well as associated PIK notes, with a senior bond and a new single bank facility.

In addition to the above transactions, we have taken two further capital management actions. The first of these was a successful bondholder consent in December that ensured that the £200 million Phoenix Life Limited Tier 2 bonds could be 'grandfathered' as capital under Solvency II and which therefore helps clarify the Group's capital position under the new regime. Second, we announced in January 2015 an exchange of 99% of the Group's Tier 1 notes for £428 million of new subordinated notes, issued by PGH Capital Limited and maturing in 2025. The terms of the new subordinated notes meet the requirements of Tier 2 capital under Solvency II and have a coupon of 6.625%. This exchange helps to extend further the maturity of the Group's debt and better align it to the Group's long-term cash generation profile.

This comprehensive restructuring of the Group's debt profile is the culmination of a series of actions that have been undertaken to reduce gearing and simplify our capital structure over the past five years, with total shareholder borrowings, including our Tier 1 notes, reducing from £3.5 billion at the end of 2009 to £1.7 billion as at 31 December 2014. This strengthens Phoenix Group's position as the UK's largest specialist closed life fund consolidator and the Group will continue to progress its aim to achieve an investment grade credit rating during 2015.

OUR CAPITAL POSITION AND SOLVENCY II

The Group's PLHL ICA surplus is calculated for Phoenix Life Holdings Limited ('PLHL'), the same level at which we perform our IGD calculation. This is an assessment on an economic basis of the capital resources and requirements arising from the obligations and risks which exist outside the life companies. At 31 December 2014, our PLHL ICA surplus was estimated to be £0.7 billion, with headroom of £0.6 billion (2013: £1.2 billion surplus, £1.1 billion headroom). The reduction over the course of the year was driven by the repayment of Group debt and a strengthening of ICA stress assumptions related to longevity, credit and correlations coupled with the economic impact of falling yields.

Our estimated IGD surplus was £1.2 billion at 31 December 2014 with headroom over our IGD capital policy of £0.5 billion (2013: £1.2 billion surplus, £0.5 billion headroom). IGD remains the Group's 'biting' regulatory capital constraint as at 31 December 2014.

During 2014, our activities in relation to Solvency II have been focused primarily on the preparation of the Group's Internal Model Application, as well as on monitoring the progress of the developing Solvency II regulations. The UK insurance industry is still awaiting from regulatory authorities the specific details in relation to the implementation of Solvency II, including with respect to the transitional provisions, matching adjustment and volatility balancer.

Given the uncertainty surrounding the transition to Solvency II, it is likely there will be some retention of capital in the short term within the life companies. At a Group level, provided that the regulations are in line with our current expectations, we expect to be well capitalised under the new Solvency II regime, with the Group capital position under Solvency II expected to be in excess of the current PLHL ICA surplus. However, this is subject to regulatory approvals and should not be seen as representing the views of the Prudential Regulation Authority. We are currently on track to formally apply for regulatory approval of our Internal Model in June.

IFRS OPERATING PROFIT

Finally, the Group achieved increased IFRS operating profits of £483 million (2013: £439 million), despite the Ignis divestment completing on 1 July 2014. The higher level of profitability was primarily due to a higher level of management actions.

On a pro forma basis, if the divestment of Ignis had occurred on 1 January 2014, the Group's IFRS operating profits for the year ended 31 December 2014 would have been £17 million lower, reflecting the removal of Ignis' contribution to the Group's operating results during that period.

OPERATIONAL HIGHLIGHTS

We continued to develop the Group's operating model in 2014 and undertook a number of specific actions:

- We increased the distributable estate by £184 million through a range of management actions, with £185 million of estate distributed to 95,000 policyholders through final bonuses on their with-profits policies
- We successfully streamlined the Group's actuarial modelling systems, using the new model to produce the 2014 results following decommissioning of the legacy models after a successful parallel run for the 2013 year end. The new model simplifies processes, enables consistent capital management across the business and positions us well to meet the new Solvency II reporting requirements in an efficient manner
- We continued to make progress in consolidating our investment fund accounting, unit pricing and custody arrangements from multiple providers to a single outsource partner, HSBC. Our investment fund accounting services have materially completed their migration to HSBC, streamlining our operations and increasing efficiency
- We continued the migration of in-force policies to Diligenta's BaNCS administration platform, with the transfer of a further 65,000 policies following the expiry of our outsourcing contract with Capita Employee Benefits (formerly Capita Hartshead). We have now migrated a total of 3.24 million in-force policies to BaNCS
- We completed a transaction to re-balance exposure to longevity risk from the PGL Pension Scheme. This involved Phoenix Life Limited de-risking certain with-profit funds (via the closure of a legacy longevity indemnity agreement with a Group holding company) and entering into a longevity swap insurance (covering approximately £900 million of PGL Pension Scheme liabilities) which was simultaneously reinsured on a 50% quota share basis. The overall impact of the transaction on the Group MCEV was a gain of £91 million
- We entered into a reinsurance agreement to transfer approximately £1.7 billion of in-payment liabilities from three with-profit funds in Phoenix Life Limited to Guardian Assurance Limited ('Guardian'), effective from 1 January 2014. It is expected that the reinsurance agreement will be replaced with a formal Part VII transfer of the annuities to Guardian in 2015, affecting around 60,000 policies. This transaction removes a significant element of longer dated risk from the three with-profit funds
- We worked closely with our outsource partners to prevent £8 million of potential transfers to pensions liberation fraud schemes in 2014. Had these cases proceeded, customers could have suffered substantial tax charges and high administration fees and potentially could have been left with no pension upon retirement.

This is a strong list of achievements and we will continue to seek ways to add value for customers and shareholders during 2015.

REGULATORY AND LEGISLATIVE CHANGES

2014 saw a number of key regulatory and legislative changes to the UK life insurance sector and the financial impact of these changes is still unclear. However, Phoenix Group will continue to take actions to prepare for the possible range of outcomes.

The ending of compulsory annuitisation of pension pots, announced in the 2014 Budget, is expected to have a significant impact across the UK life insurance industry. Phoenix Group, while only providing annuities for our vesting policyholders, wrote a total of £545 million of annuities in 2014.

Of the annuities we wrote in 2014, £390 million had guaranteed annuity rates ('GARs'). The Group continues to expect that the large majority of the guaranteed business for higher-value pension pots will continue to be annuitised, given both the attractive nature of the rates and that customers using independent financial advice or the free guidance service, 'PensionWise', are likely to be strongly encouraged to take advantage of their GARs. However, we do expect an increase in cash being taken for lower-value pension pots. While it is still too early to draw firm conclusions, we have assumed that the future take-up of guaranteed annuities will decline by around 20%, with a negative impact on our MCEV of £15 million.

In respect of non-GAR annuities, again it is still too early to be certain of customers' long-term behaviour. Volumes of non-GAR annuities written by the Group have fallen by 46% in 2014 compared to 2013, as customers have deferred making decisions with regards to their pension pots following the budget. We believe that, in future, take-up of non-GAR annuities by customers will fall by around two-thirds. The MCEV contribution from writing these annuities was £11 million in 2014 compared to £18 million for 2013.

The Government also announced a cap on charges for new auto-enrolment pensions of 75bps in March 2014. Although auto-enrolment is not a market in which Phoenix Group actively engages, we have assessed the potential impact on the Group and this has led to a reduction in the Group MCEV of £20 million. This provision is lower than that made at the time of our interim results as the regulatory position has been clarified during the second half of the year, with the likely impact on the Group now reduced.

Finally, the FCA announced a thematic review of the fair treatment of long-standing customers in life insurance as part of their 2014-2015 business plan. The FCA work is ongoing, but they have confirmed that the scope of the review will cover firms' strategies with regard to their legacy product portfolios, the performance of legacy products, the allocation of expenses between closed and open books of business, customer communication and the level of exit charges.

Our focus on closed books ensures that we can demonstrate a clear strategy for legacy products and since Phoenix Group does not write new products (other than vesting annuities) we do not believe that any cross-subsidisation of expenses exists. Furthermore, we believe that the ongoing efforts of the Group to improve performance and service to our customers are a clear demonstration of good practice.

CUSTOMERS

The customer strategy at Phoenix Group is focused on improving customer outcomes. Security of our customer assets is foremost, followed by our aim to maximise returns wherever possible but primarily through enhanced distribution of the estate within the life funds. For example, within the Pearl with-profit fund, now part of Phoenix Life Assurance Limited, estate distribution is adding around 26% to the final pay-out on many policies. In addition, 75% of our with-profit policies are now receiving annual bonus payments, a sign that our with-profit funds are returning to a healthier position under our stewardship.

We also seek to ensure our communications are right for each of our customers. As mentioned above, the changes to the compulsory annuitisation of pension pots announced in the March 2014 Budget were unexpected. These changes introduced a number of new options for our customers both immediately following the announcement and from April this year. We reacted quickly following the Budget, introducing the new freedoms and allowing flexibility to those customers who had made decisions immediately prior to the announcements. In readiness for the changes coming into effect from April, we will be writing to our customers as they approach their retirement age to set out their options clearly, including the option to take all of their funds in cash should they wish to do so.

We will be fully supporting the Government's new PensionWise service and will be encouraging our customers to make full use of this new guidance service and to seek independent advice on what we think is a very important decision. The changes bring about many new options for customers and we will either facilitate these as part of their existing products or, where appropriate, help our customers seek more appropriate solutions elsewhere.

This year we have also worked with the regulators and industry bodies on their reviews of annuities and workplace pensions. We have been proactive in ensuring the needs of our key customer groups, such as those with small pension pots and guarantees, are not overlooked in the reviews. In light of the 2014 Budget changes, it is crucial that our existing customers with guarantees remain aware of the value of the guaranteed rates attached to their policies. Even for those customers who do not have guaranteed rates, we believe the lifelong certainty of income provided by an annuity should mean these products will continue to provide an attractive retirement option for some customers. While we ensure that any customer taking a standard annuity with Phoenix gets a competitive market rate, we recognise some customers could be able to get a higher income elsewhere and actively encourage them to do so.

Unfortunately the new freedoms are likely to encourage more instances of customers being targeted by fraudsters and we have been proactive in highlighting this issue within the industry, media and with our customers to ensure we help them get maximum protection from losing their hard-earned savings. Phoenix Group has to date prevented over 1,000 people from losing a total of £22 million to fraudulent schemes, of which £8 million was during 2014. We intend to continue to be as vigilant in 2015.

2015 is likely to be a challenging year for us and, I suspect, for our customers as we all get to grips with these changes. We have therefore been increasing operational capacity and the skill levels of our colleagues to ensure we are in the best place possible to react to these challenges.

PEOPLE

Phoenix Group's ability to attract, retain and motivate outstanding talent was, for the third year in succession, formally recognised in 2014 through our accreditation as one of 'Britain's Top Employers'. This reflects our commitment to employee development and engagement. That commitment was well illustrated earlier in the year when, following the planned retirement of two of my colleagues on the Group's Executive Committee and after very robust selection processes, two strong internal replacements were appointed. Employee engagement comprises one element of the corporate component of the Annual Incentive Plan for senior managers; our overall 2014 employee engagement survey results represented a 2% increase to 78%. Responses to the Engagement Index questions shows Phoenix Group 7% ahead of our Financial Services benchmark in 2014 (4% higher in 2013).

The Group's Corporate Responsibility programme continues to be a key component of our business proposition. Employees take great personal responsibility and involve themselves in many varied initiatives. I am pleased to report that in excess of £160,000 was raised by our employees for the Group's chosen charities of the year – the Midlands Air Ambulance Charity and London's Air Ambulance – which has made a significant contribution to support their vital life-saving work.

2015 OUTLOOK AND PROSPECTS

The potential remains for our business to be impacted by economic headwinds and the uncertain and evolving regulatory environment. However, the Group's financial performance during 2014 and the strength of our business model give me confidence in the resilience of the Group's long-term cash flows and our ability to deliver value for all our stakeholders.

2015 will be a transitional year to the new Solvency II capital regime and our cash generation targets incorporate assumptions with regard to how the final Solvency II regulations are likely to be implemented. Given the current uncertainty in relation to Solvency II it is expected that there will be some retention of capital in the life companies in the short term. We have therefore set a 2015 annual cash generation target of between £200 million and £250 million. However, we reiterate the longer-term cash generation target of £2.8 billion from 2014 to 2019, of which we have already achieved £957 million. In addition, we anticipate a further £3.6 billion of cash generation from 2020 onwards, a clear demonstration of the long term cash flow potential of the Group.

We also continue to maintain strong Group solvency levels and have almost £1 billion of cash at the holding company level, providing further support for our stable and sustainable dividend policy. We expect that the overall Group will remain well capitalised under the new Solvency II regime.

Having already achieved £261 million of incremental MCEV in 2014, we are targeting a further £100 million of incremental MCEV and therefore raise our 2014 to 2016 target to £400 million, up from the original £300 million.

Finally, we have started discussions with credit rating agencies to seek an investment grade rating. We will, therefore, target a gearing level that is consistent with the achievement of this ambition, which we hope to attain during the course of 2015. The reduction in gearing that Phoenix Group achieved in 2014 has already resulted in a reduction in the interest margin on our bank facility by 37.5bps to 312.5bps and an investment grade credit rating would trigger a further 50bps margin reduction on the outstanding bank facility, providing further interest cost benefits to the Group.

CONCLUSION

Phoenix Group is well positioned to benefit from the numerous changes in the UK life insurance industry. Not only do we have the right platform as the largest UK specialist consolidator of closed life funds, with an effective and scalable operating model and strong outsource partner relationships, we have also demonstrated our ability over the past five years to enhance value for our customers and shareholders through management actions. I believe that there remains a significant opportunity for Phoenix Group to generate further value from future acquisitions as the current regulatory uncertainty clears.

As the Chairman has already noted, he will be leaving the Group at the end of August 2015. Although this is six months away, I would like to take this public opportunity to acknowledge his very considerable contribution to the Group. In the last three years he has helped the Board, my Executive colleagues and me, to rebuild and strengthen Phoenix Group. We wish him well in the future with his new responsibilities and thank him for all his efforts.

I would also like to thank my colleagues for their hard work during an exceptionally busy year. They have continued to deliver strong performance across all of our key financial metrics and targets, while completing a number of key transactions that have enhanced the Group's strategic position. I look forward to capitalising on our renewed strength and firmly believe that we can continue to deliver value for all our stakeholders.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER
17 March 2015

£567m

2013: £817m
OPERATING COMPANIES' CASH GENERATION

£483m

2013: £439m
IFRS OPERATING PROFIT

34%

2013: 44%
GEARING

OUR BUSINESS MODEL

PHOENIX GROUP IS THE UK'S LARGEST SPECIALIST CLOSED LIFE AND PENSION FUND CONSOLIDATOR WITH

AROUND 5 MILLION POLICYHOLDERS. WE ARE FOCUSED ON THE EFFICIENT RUN-OFF OF THE EXISTING CLOSED LIFE BUSINESS WITH AN AMBITION TO LEAD THE CONSOLIDATION OF THE UK CLOSED LIFE FUND SECTOR. THE DIVESTMENT OF IGNIS TO STANDARD LIFE INVESTMENTS BROUGHT SIGNIFICANT FINANCIAL AND STRATEGIC BENEFITS AND HAS ENHANCED OUR ABILITY TO EXPLOIT FUTURE CONSOLIDATION OPPORTUNITIES.

WHAT WE DO

We manage life insurance funds which no longer actively sell new life or pension policies and which run-off gradually over time. The Group's closed life funds consist of around 5 million policyholders and total life company assets of approximately £52 billion.

We manage these funds using our expertise in the areas of capital, financial, risk and cost management.

We are focused on the efficient run-off of the existing closed life business with an ambition to lead the consolidation of the UK closed life fund sector.

HOW WE CREATE VALUE

Unlike open life businesses, we are not required to allocate significant capital to support the writing and distribution of new insurance products. This means that the capital requirements of our operating life companies decline as policies mature, releasing excess capital in the form of cash.

We create value by seeking to enhance policyholder returns from our in-force book of closed life funds and generating profits for shareholders from participation in investment returns, policyholder charges and management fees earned on assets. These additional profits from the in-force policies increase the free surplus which can be released by the Group's life companies in the form of cash.

External outsource partners are used for policy administration, thereby minimising fixed costs. This provides a more efficient operating model as the policies run-off, in addition to a scalable and cost-effective platform to support the Group's consolidation strategy.

HOW PHOENIX GROUP WORKS

- As a closed life business, capital is released as the policies run-off which allows the Group to support a higher degree of leverage in its capital structure than many of our peers who continue to write new business which consume capital
- Value generated by Phoenix Life is distributed to the holding companies in the form of cash. The holding companies use this cash to fund Group expenses, pension contributions, debt interest and repayments and shareholder dividends
- The Group functions provide support for, and co-ordination and delivery of, the Group's strategic objectives, whilst managing the relationships with our external stakeholders, including shareholders, banks, debt investors, pension trustees and regulators. The Group functions also consider potential acquisition or disposal opportunities to further enhance value for the Group.

OPERATING STRUCTURE

THE GROUP'S LIFE FUNDS ARE MANAGED THROUGH PHOENIX LIFE. FOLLOWING THE DIVESTMENT OF IGNIS, ASSET MANAGEMENT SERVICES ARE OUTSOURCED AND ARE PROVIDED PRIMARILY BY STANDARD LIFE INVESTMENTS.

THE GROUP FUNCTIONS ARE FOCUSED ON THE DELIVERY OF THE GROUP'S STRATEGIC OBJECTIVES AND ENHANCING THE GROUP'S EXTERNAL POSITIONING.

GROUP FUNCTIONS

The Group functions provide services to Phoenix Life and manage corporate and strategic activity. This includes Group Finance, Treasury, Group Tax, Group Actuarial, Group Risk, Legal Services, HR, Corporate Communications, Strategy and Corporate Development, Investor Relations, Company Secretariat and Internal Audit. The Group functions are based both in Wythall, Birmingham and Juxon House, London, and the Group is led by the Group Chief Executive Officer, Clive Bannister.

PHOENIX LIFE

Phoenix Life is responsible for the management of the Group's life funds. Its experienced and focused management team is led by its Chief Executive Officer, Andy Moss. Based in Wythall, near Birmingham, it has a track record of successfully integrating life assurance businesses and has developed a leading-edge model and infrastructure into which future acquired funds can be integrated.

PHOENIX LIFE

LIFE COMPANIES

Hold the financial assets of our policyholders

MANAGEMENT SERVICES

COMPANIES

Responsible for providing
our life companies with all required services

OUTSOURCE PARTNERS

Used by the management services companies to provide policy administration

Further details of our life company consolidations can be found on our website at http://www.phoenixlife.co.uk/about-phoenix-life/fund-transfers.aspx

Following a series of life company consolidations, the Group now has three operating UK life companies, being Phoenix Life Limited, Phoenix Life Assurance Limited and National Provident Life Limited ('NPLL'). Together, they comprise 14 with-profit funds and two non-profit funds. In addition, the Group has an Irish operating life company, Scottish Mutual International Limited ('SMI'), which is owned by Phoenix Life Limited.

By bringing together separate life companies and funds, the Group's business model is simplified, which releases capital and reduces complexity. Fund transfers enable the Group to make more efficient use of the capital in its life companies and result in administrative expense savings and increased consistency of management practices and principles across the Group.

The Group has commenced the process of transferring the business of NPLL to Phoenix Life Assurance Limited, thus potentially reducing the number of operating UK life companies from three to two. If approved by the High Court, it is expected that the transfer will take place on 30 June 2015. The transfer will provide the opportunity to move the NPLL business under the Phoenix Life brand, thereby enabling a consistent brand to be used across all of the Group's UK life insurance business.

The Group's management services companies are charged with the efficient provision of financial and risk management services, sourcing strategies and delivering all administrative services required by the Group's life companies. By using management services companies, the life companies benefit from price certainty and a transfer of some operational risks.

As the number of policies held by the Group gradually declines over time, the fixed cost base of our operations as a proportion of policies will increase. Our management services team manages this risk by putting in place long-term arrangements for third party policy administration. By paying a fixed price per policy to our outsource partners we reduce this fixed cost element of our operations and convert to a variable cost structure. This allows our management services companies to generate profits by managing costs efficiently.

These outsource partners have scale and common processes, often across multiple clients, which provide several benefits for the Group, including reducing investment requirements, improving the technology used within our administrative capability, and reducing our operational risk.

Specialist roles such as finance, actuarial, risk and compliance and oversight of the outsource partners are retained in-house, ensuring Phoenix Life retains full control over the core capabilities necessary to manage and integrate closed life funds.

The divestment of Ignis has had a limited impact on the operating structure of Phoenix Life. The relationship with Ignis operated on an arm's length basis and this has continued with Standard Life Investments. The existing outsourcer model is used to oversee and manage the relationship with Standard Life Investments.

OUR STRATEGY

OUR MISSION IS TO IMPROVE RETURNS FOR OUR POLICYHOLDERS AND DELIVER VALUE FOR SHAREHOLDERS. THE GROUP INTENDS TO ACHIEVE THIS BY REALISING ITS VISION OF BEING THE SAVER-FRIENDLY, 'INDUSTRY SOLUTION' FOR THE SAFE, INNOVATIVE AND PROFITABLE MANAGEMENT OF CLOSED LIFE FUNDS.

AREAS OF CURRENT STRATEGIC FOCUS

The four key areas of current strategic focus are outlined in more detail over the next few pages.

MANAGE CAPITAL

DRIVE VALUE

IMPROVE CUSTOMER OUTCOMES

ENGAGE PEOPLE

MANAGE CAPITAL

For further details of the Group's Risk Management Framework and principal risks and uncertainties

Turn to pages 36 and 39.

£1.2bn

2013: £1.2bn

IGD SURPLUS (ESTIMATED)

£0.7bn

2013: £1.2bn

PLHL ICA SURPLUS (ESTIMATED)

As a Group we continue to focus on the effective management of our risks and the efficient allocation of capital against those risks.

We aim to ensure that unrewarded exposure to market volatility is minimised or the risks from market movements are managed through hedging.

In addition, regular re-balancing of asset and liability positions is required to ensure that only those assets which deliver appropriate risk-adjusted returns are held within life funds, taking into account any policyholder guarantees.

We also continue to focus on optimising our capital structure while addressing the diverse needs of various stakeholders, including policyholders, shareholders, lending banks, bondholders and regulators.

HOW WE MEASURE DELIVERY

Effective risk and investment management benefit our capital metrics: IGD surplus and PLHL ICA surplus, both key performance indicators ('KPIs') which are used to monitor the strength of our business and our strategy to manage capital efficiently. Going forward we intend to manage our gearing to a level consistent with our aim to achieve an investment grade credit rating.

KEY INITIATIVES AND PROGRESS IN 2014

- In March 2014, we announced the divestment of Ignis to Standard Life Investments for £390 million in cash. The transaction completed on 1 July 2014 and brought significant financial and strategic benefits to the Group, including a reduction in the level of gearing through a £250 million debt prepayment and a strategic alliance with Standard Life Investments.
- In July 2014, we issued a £300 million senior unsecured bond which allowed us to refinance a portion of our bank debt and improved financial flexibility through a reduction in our reliance on bank finance and re-establishing our relationship with the debt capital markets.
- Following on from the bond issue, we completed a comprehensive refinancing of our senior debt structure which unified the two legacy debt silos (Pearl and Impala) into a single new £900 million unsecured bank facility. As part of this refinancing, we repaid £206 million of bank debt and lowered our interest costs with the potential for margin reductions if we reduce gearing further and/or achieve an investment grade rating.
- Together these actions have reduced gearing significantly, supporting our aim to achieve an investment grade rating in the future whilst enhancing our ability to pursue further acquisitions.
- In December 2014, we obtained consent from bondholders to ensure that the £200 million Phoenix Life Limited Tier 2 bonds could be grandfathered as capital under Solvency II which helps clarify the Group's capital position under the new regime.
- In January 2015, we announced a successful exchange of 99% of the Group's Tier 1 notes for £428 million of new subordinated notes, issued by PGH Capital Limited and maturing in 2025. The new terms of the subordinated notes meet the requirements of Tier 2 capital under Solvency II and have a coupon of 6.625%. This exchange helps to extend the maturity of the Group's debt structure and better align it to the Group's long-term cash generation profile.

PRIORITIES FOR 2015

- Continue to implement new management actions to enhance our capital metrics.
- Progress with our Solvency II programme and optimise the Solvency II balance sheet.
- Examine opportunities to further optimise our capital structure.
- Pursue the achievement of an investment grade credit rating.

DRIVE VALUE

For further details of our cash and MCEV KPIs
Turn to pages 26 and 28.

£567m

2013: £817bn

OPERATING COMPANIES' CASH GENERATION

£261m

2013: £170m

INCREMENTAL MCEV

In order to drive value there are a number of management actions, planned and undertaken, which release capital, accelerate cash flows or enhance MCEV. These actions are undertaken across four areas: restructuring, risk management, operational management and outsourcing. By improving the efficiency of operational management through the standardisation and streamlining of key processes across the Group, this will in turn reduce costs, improve efficiency and drive value.

Although the life companies are closed and generally do not write new business, they do accept additional policyholder contributions on in-force policies and allow certain policies, such as pension savings plans, to be reinvested at maturity into annuities. The Group has a strong and steady stream of internal annuities vesting, of which over 70% of premiums written in 2014 had valuable guaranteed annuity rates.

Additional value can be generated from further acquisitions of closed life books of business, as detailed on page 21.

HOW WE MEASURE DELIVERY

The Group sets external targets for two of its KPIs, cash flow generation and incremental Group MCEV, which underpin how value is delivered.

KEY INITIATIVES AND PROGRESS IN 2014

- In 2014, we met our annual cash generation target by delivering £567 million of cash to our holding companies during the year – exceeding our £500–550 million target range.
- A further £390 million was received from the divestment of Ignis.
- We continued to streamline the Group's actuarial modelling systems, simplifying modelling processes and ensuring consistent capital management across the business. This and other management actions enhanced MCEV by £261 million in 2014.
- In March 2014, we announced a new cumulative target of £300 million incremental embedded value from management actions between 2014 and 2016. Having already achieved £261 million of incremental MCEV in 2014, we commit to achieving a further £100 million of incremental MCEV in the period 2014–2016.
- £545 million of vesting annuities were retained within the Group in 2014, of which £390 million related to policies with guaranteed annuity rates.

PRIORITIES FOR 2015:

- Target cash flows of £200 million – £250 million in 2015, assuming Solvency II regulations operate as expected.
- Achieve additional MCEV management actions in 2015 and 2016 to meet our revised target of £400 million in the period 2014–2016.

IMPROVE CUSTOMER OUTCOMES

For further details of customer service initiatives in 2014
See the full Corporate Responsibility report on our website.

£185m

2013: £157m

ESTATE DISTRIBUTED

Improving customer outcomes is central to our vision of being the saver-friendly 'industry solution' for closed life funds. It is not only the right thing to do by our existing customers, but provides a safe home for future customers through our consolidation strategy. We have six key areas of focus:

- Security, through delivering promises and guarantees
- Improving value and effective with-profits fund run-off, through accelerating estate distribution and providing appropriate investment exposure
- Effective service delivery, using our outsourcers to leverage expertise and ensure costs run off in line with policy volumes
- Clear and effective communication, recognising many customers no longer have financial advisers
- Product governance, including a rolling review of our products to ensure they continue to deliver appropriate outcomes for our customers
- Customer journey, improving customer experience wherever possible.

Financial services products are usually long term and in many cases customers cease to be engaged with their product over time. There is more that we as an industry can do to help re-engage customers to ensure they are in a position to make informed decisions about their products. Phoenix is committed to try to increase levels of engagement with its customers.

We ensure our customers' pension funds are protected from potential fraudsters by working closely with industry bodies and other providers to keep abreast of the latest schemes.

HOW WE MEASURE DELIVERY

A programme of customer research continues, with an average of 1,500 customers each month participating in automated telephone surveys. The results remain positive, with an overall customer satisfaction score of 4.65 on a 5 scale rating. Research of this type is invaluable as it helps inform our service proposition which puts customers at the heart of what we do, and creates an opportunity for customers to recommend improvement. We also monitor volumes of customer complaints about our service, which have reduced by nearly a third in 2014. Service complaints as a percentage of customer transactions were 0.23% against a 0.5% target.

KEY INITIATIVES AND PROGRESS IN 2014

- We have increased policyholder payments through inherited estate distribution totalling £185 million.
- For many of our funds, we have reintroduced annual bonus payments, a sign that our with profits funds are returning to a healthier position under our stewardship.

- Major reforms to the UK retirement market were announced in the 2014 Budget. As well as increased triviality limits taking effect almost immediately, from April 2015 customers will be able to take their entire pension fund as cash subject to tax at their marginal rate. Since the Budget, we have introduced new freedoms and flexibility to those customers who had made decisions immediately prior to the announcements being made. It is important to continue to ensure the right customer outcomes are being achieved and that informed decisions on valuable guarantees are being taken.
- We have increased the use of the Origo faster transfer system to now incorporate corporate pensions business. Speed of pension transfer pay-outs is now below 10 days.
- We prevented £22 million of transfers to fraudulent schemes in 2014.
- Our Financial Ombudsman Service (FOS) overturn rate has remained stable at 21%.
- We have developed new mobile and tablet-friendly versions of the Phoenix Life website.

PRIORITIES FOR 2015

- Communicating with our customers as they approach their retirement age to set out their options clearly, so that they are able to make informed decisions.
- Supporting the Government's new PensionWise service and encouraging our customers to both use this service and seek independent advice on their retirement decision-making.
- Continue to take actions to prepare for the possible range of outcomes following key regulatory and legislative changes in 2014.
- Encouraging customer engagement with the products they hold with Phoenix.

ENGAGE PEOPLE

For further details of employee engagement initiatives
See the full Corporate Responsibility report on our website.

Our people underpin everything that we do. They make it possible for us to enhance value and improve service for customers. They make it possible to deliver returns for policyholders. Therefore we make sure we do everything we can to provide a challenging and rewarding environment in which our people can thrive.

HOW WE MANAGE DELIVERY

The engagement of our workforce is hugely important for the success of our business. We keep our finger on the pulse through an annual staff survey, which has again returned scores ahead of the Financial Services Benchmark. 2014 was the fifth year of this annual survey, and our engagement score for Phoenix Life and Group was 78%, which represents a 2% increase compared to 2013. We use the results to drive continuous improvement in staff engagement, planning activities at a Group and team level informed by the MI provided.

KEY INITIATIVES AND PROGRESS IN 2014

We have a principles-led approach to maintaining a collaborative and successful team which we continued to apply in 2014. We have five corporate values which outline how we work as individuals and how we interact with each other. We regularly communicate our vision for the organisation and our shared goals, most recently through a 'Strategy on a Page' campaign which brought the fundamental purpose and targets of the business together in one document. Our efforts to provide a positive working environment led 94% of staff who completed our annual survey to agree that they would 'go the extra mile' at work, and 80% of our people said they would recommend this company as a great place to work.

Building on the success of development centres held in 2013, we have held a further two centres to develop our future leaders. We currently have leaders enrolled in programmes with both the Open University and Ashridge. This long-term approach and level of commitment to our people has paid off with a number of internal appointments to senior positions in 2014: three to our Executive Committee and one to the Phoenix Life Management Board.

PRIORITIES FOR 2015

Over 2015 we will continue to communicate our strategy and goals through a variety of channels. We will hold conferences for senior management to hear and debate our latest plans, and are also investing in a redeveloped intranet which will provide a modern platform for communication and collaboration.

DURING 2014, THE GROUP HAS MADE SIGNIFICANT PROGRESS IN SIMPLIFYING ITS DEBT STRUCTURE AND IMPROVING FINANCIAL FLEXIBILITY. IN PARTICULAR, THE DIVESTMENT OF IGNIS, SENIOR BOND ISSUE AND COMPREHENSIVE DEBT REFINANCING HAVE REPOSITIONED THE GROUP TO CONSIDER ACQUISITION OPPORTUNITIES.

OPPORTUNITIES FOR FUTURE GROWTH

POTENTIAL MARKET OPPORTUNITIES

We have estimated that the total UK closed life fund market opportunity for Phoenix is more than £300 billion of assets.

The UK closed life fund consolidation opportunity is supported by market dynamics which are expected to generate a supply of potentially attractive acquisition targets over the medium term. These dynamics include the potential impact of a changing regulatory framework for financial services companies including the Solvency II and Basel III regulations. Additionally, there is ongoing capital pressure within the sector, the trend of recycling and refocusing capital from mature to growth markets, the decline in new with-profits business, changing customer demands and regulatory change, all of which drives consolidation. We believe this opportunity is also supported by the migration of products to alternative structures, the cost challenge posed by a fragmented sector and the run-off of closed life funds and the potential exit of international participants.

BROAD SPECTRUM OF POTENTIAL ACQUISITION SIZES AND STRUCTURES

Phoenix Group is well placed to find solutions for a range of sellers of life insurance businesses due to the Group's flexible approach to acquisitions, in particular the Group's appetite to acquiring either life companies, funds or portfolios of businesses, and all product types across the with-profit, non-profit and unit-linked spectrums.

The financial services sector is evolving and we believe the changing regulatory environment may result in vendors looking to dispose of various portions of their business. We are able to be flexible about the size and structure of any acquisition, which should provide us with a variety of opportunities.

VALUE GENERATION THROUGH ACQUISITIONS

Phoenix Group will assess potential acquisitions in light of the financial condition of the Group. The criteria we would target in making an acquisition are:

- Closed life. Any acquisition would be in the closed life fund sector within the UK or Ireland
- Value accretive
- Help to sustain dividends
- Gearing level supportive of an investment grade rating.

Additional value from acquisitions can be generated through synergies which, combined with our ability to add value to any acquired book through our four areas of management actions, are fundamental drivers of shareholder value accretion. The process of extracting synergies is one which we have undertaken successfully from our existing book in recent years and we are well positioned to be able to replicate this in future.

The divestment of Ignis resulted in a long-term strategic alliance with Standard Life Investments. Given its existing position as the UK's largest specialist consolidator of closed life funds, Phoenix has agreed with Standard Life Investments a mechanism to share value resulting from any future transfers of assets from Phoenix to Standard Life Investments.

Potentially, our business may be unable to source and execute successful transactions, but as a standalone business and in the absence of further acquisitions, Phoenix is expected to continue to generate strong and predictable cash flows from the operating companies to support commitments at the holding companies including pension scheme contributions, debt servicing and shareholder dividends. However, in order to grow and maximise value for all stakeholders, we will continue to pursue opportunities which meet the criteria set out above as and when they arise.

FINANCIAL PERFORMANCE

KEY PERFORMANCE INDICATORS

OPERATING COMPANIES' CASH GENERATION

£567m

2013: £817m

Maintaining strong cash flow delivery underpins debt servicing and repayment as well as shareholder dividends.

ANALYSIS

Continued strong cash generation of £567 million by the Group's operating companies enabled the Group to exceed its full year cash generation target for 2014 of £500 million to £550 million. The receipt of gross Ignis divestment proceeds generated a further £390 million of cash in the period.

Management actions contributed £180 million to cash generation, through operational enhancements, restructuring and de-risking activities.

DEFINITION

Operating companies' cash generation is a measure of cash and cash equivalents remitted by the Group's operating companies to the holding companies and is available to cover dividends, debt servicing and repayment, pension scheme contributions and operating expenses.

QUANTIFIED TARGET[1]

The cumulative cash flow target for 2014 to 2019 is £2.8 billion, including Ignis divestment proceeds of £390 million. £957 million out of £2.8 billion has been achieved by 31 December 2014. Management has set a 2015 annual cash generation target of between £200 million and £250 million.

GROUP MCEV

£2,647m

2013: £2,378m

The Board considers that MCEV provides the most relevant and consistent means of assessing the Group's ability to increase value through the delivery of incremental management actions.

ANALYSIS

Group MCEV increased by £269 million at 31 December 2014, benefiting from £261 million of value-enhancing management actions delivered in the period and the positive impact of the divestment of Ignis. This has more than offset dividend payments and the adverse impacts of regulatory changes and increases in the market value of the Group's debt recognised in the period.

DEFINITION

The basis of calculation of Group MCEV is set out in note 1 of the MCEV supplementary information.

Incremental MCEV is defined as the enhancement of MCEV through management actions.

QUANTIFIED TARGET

The Group's incremental MCEV target is £300 million between 2014 and 2016, of which £261 million has now been delivered. Management have set a new target of £400 million of incremental MCEV between 2014 and 2016.

GEARING

34%

2013: 44%

The gearing ratio is the Group's measure of its level of debt compared to its equity on a gross MCEV basis.

ANALYSIS

Gearing reduced to 34% at 31 December 2014, reflecting the Group's debt refinancing during the year and the disposal of Ignis.

DEFINITION

The Group calculates its gearing as gross shareholder debt (gearing basis) as a percentage of gross MCEV. Gross shareholder debt (gearing basis) is defined as the sum of the IFRS carrying value of shareholder debt and 50% of the IFRS carrying value of the Tier 1 notes given the hybrid nature of that instrument. Gross MCEV is defined as the sum of the Group MCEV and the value of the shareholder and Tier 1 debt as included in the MCEV.

QUANTIFIED TARGET

Having successfully completed comprehensive debt refinancing in July, we achieved our 40% gearing target ahead of schedule. Following the Tier 1 notes exchange announced in January 2015 and in order to align the Group's measure of its level of debt with that used to determine the interest margin payable on its bank facility, the Group will monitor gearing by reference to the financial leverage ratio going forwards. Details on the calculation of this metric are included below.

FINANCIAL LEVERAGE

39.3%

2013: 49.6%

Financial leverage is the Group's measure of its level of debt that determines the interest margin payable on its bank debt facilities.

ANALYSIS

Financial leverage reduced to 39.3% at 31 December 2014, reflecting the Group's debt refinancing and the disposal of Ignis. The reduction below 40% has reduced the margin above LIBOR payable on the PGH Capital bank facility from 350bps to 312.5bps.

DEFINITION

The Group calculates financial leverage as gross shareholder debt (financial leverage basis) as a percentage of gross MCEV.

Gross shareholder debt (financial leverage basis) is defined as the sum of the notional face value of shareholder debt and 100% of the face value of the Tier 1 notes. Gross MCEV is defined as the sum of the Group MCEV and the value of the shareholder and Tier 1 debt as included in the MCEV.

QUANTIFIED TARGET

The Group will target a financial leverage level consistent with the achievement of an investment grade credit rating, upon which a further 50bps margin reduction on the outstanding bank facility would be triggered.

DIVIDEND PER SHARE

53.4p

2013: 53.4p

ANALYSIS

The Board has recommended a final dividend of 26.7p per share, bringing the total dividend for the year to 53.4p per share. The final dividend is due to be paid on 27 April 2015, subject to shareholder approval at the Company's AGM.

DEFINITION
The dividend per share consists of the interim dividend per share paid in the year and the final dividend per share recommended for the year.

GROUP IFRS OPERATING PROFIT

£483m

2013: £439m

The Board considers that Group IFRS operating profit is a more representative measure of performance than Group IFRS profit before tax as it provides long-term performance information unaffected by short-term economic volatility.

ANALYSIS
Group IFRS operating profit has increased by £44 million to £483 million due to one-off benefits generated from system and modelling improvements of £165 million (2013: £98 million) and the positive impact of assumption changes compared to the prior year.

DEFINITION
The basis of calculation of Group IFRS operating profit is set out in note 6 of the IFRS consolidated financial statements.

IGD SURPLUS (ESTIMATED)

£1.2bn

2013: £1.2bn

Insurance Groups' Directive ('IGD') surplus is the Pillar 1 regulatory assessment of capital adequacy at a PLHL level.

ANALYSIS
The estimated IGD surplus has remained stable at £1.2 billion with capital generation and the positive impact of management actions offsetting dividend payments and debt financing and repayments of £0.6 billion in the period. The surplus of £1.2 billion represents headroom of £0.5 billion (2013: £0.5 billion) over the Group's IGD regulatory capital policy.

DEFINITION
The IGD surplus is a regulatory capital measure which calculates surplus capital at the highest EEA level insurance group holding company, which is Phoenix Life Holdings Limited ('PLHL'). IGD surplus is defined as Group capital resources less the Group capital resource requirement.

REGULATORY CAPITAL POLICY
The Group maintains group capital resources at the PLHL level at an amount in excess of 105% of the with-profit insurance capital component ('WPICC'), being an additional capital requirement of with-profit funds, plus 145% of the Group capital resource requirement less the WPICC as agreed with the PRA.

PLHL ICA SURPLUS (ESTIMATED)

£0.7bn

2013: £1.2bn

PLHL ICA surplus is the economic regulatory assessment of capital adequacy at a PLHL level.

ANALYSIS
The reduction in the estimated PLHL debt ICA surplus of £0.5 billion reflects the impacts of dividend payments, debt refinancing and repayments in the period, together with the adverse impacts of falling yields on the Group's capital requirements and the strengthening of stress assumptions related to longevity, credit and correlations. This has been partly offset by free surplus generation, the divestment of Ignis and the positive impact of management actions in the period. The surplus of £0.7 billion represents headroom of £0.6 billion (2013: £1.1 billion) over the PLHL ICA regulatory capital policy.

DEFINITION
PLHL ICA surplus represents an assessment on an economic basis of the capital resources and requirements arising from the obligations and risks which exist outside the life companies. The measure is calculated at the highest EEA level insurance group holding company, being PLHL.

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

CASH GENERATION

£567m

2013: £817m

OPERATING COMPANIES' CASH GENERATION

CASH GENERATION

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

HOLDING COMPANIES' CASH FLOWS

The statement of cash flows prepared in accordance with IFRS combines cash flows relating to shareholders and cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. For this reason, the following analysis of cash flows focuses on the holding companies' cash flows, which reflect cash flows relating only to shareholders and which are, therefore, more representative of the cash that could potentially be distributed as dividends or used for the repayment of debt, the payment of debt interest, Group expenses and pension contributions (subject to the Group's liquidity policy, regulatory and other restrictions on the availability and transferability of capital). This cash flow analysis reflects the cash paid by the operating companies to the holding companies, as well as the uses of those cash receipts.

In 2014, the Group delivered cash flows from its operating subsidiaries of £567 million (excluding the proceeds from the divestment of Ignis), including cash flows of £180 million from management actions. The latter increased cash flows through operational enhancements, restructuring and de-risking activities.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Cash and cash equivalents at 1 January	995	1,066
Operating companies' cash generation:		
Cash receipts from Phoenix Life	446	794
Cash receipts from Ignis	32	23
Other cash receipts	89	–
Total receipts of cash by holding companies[1]	567	817
Proceeds from the divestment of Ignis	390	–
Net proceeds of the equity raise[2]	–	211
Total receipts	957	1,028
Uses of cash:		
Operating expenses	(29)	(34)
Pension scheme contributions	(88)	(96)
Debt interest	(80)	(147)
Total recurring outflows	(197)	(277)
Non-recurring outflows	(46)	(6)
Uses of cash before debt repayments and shareholder dividend	(243)	(283)
Debt repayments	(601)	(696)
Shareholder dividend	(120)	(120)
Total uses of cash	(964)	(1,099)
Cash and cash equivalents at 31 December[3]	988	995

1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £43 million (2013: £53 million).

2 Proceeds of the equity raise of £250 million less associated fees and commission of £18 million, and after the deduction of £21 million of fees associated with the re-terming of the Impala loan facility.

3 Closing balance at 31 December 2014 includes required prudential cash buffer of £150 million (2013: £150 million).

Operating companies' cash generation

Cash remitted by Phoenix Life during 2014 was £446 million (2013: £794 million), reflecting free surplus in the life companies and the benefit of management actions implemented during the period. Cash of £32 million (£2013: £23 million) was remitted by Ignis prior to its divestment. Other cash receipts comprised £68 million from the buy-out of the pension indemnity from the with-profit funds and £21 million from the sale of BA(GI) Limited.

This enabled the Group to exceed its cash generation target range of £500 million to £550 million for the year ended 31 December 2014, excluding Ignis divestment proceeds.

On 1 July 2014, the Group completed the divestment of Ignis to Standard Life Investments (Holdings) Limited ('Standard Life Investments') and received gross cash proceeds of £390 million.

Phoenix Life free surplus

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Opening free surplus	529	514
IFRS operating profit	487	414
IFRS investment variances and non-recurring items	(46)	28
IFRS tax	(43)	(96)
Movements in capital requirements and policy	(176)	371
Valuation differences and other[1]	(109)	92
Free surplus generated in the period	113	809
Cash distributed to holding companies	(446)	(794)
Closing free surplus[1]	196	529

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

The Phoenix Life operating profit is discussed in the Group IFRS operating profit section and reflects recurring margins and return on surplus assets, plus the effects of non-economic experience variances and assumption changes.

Total free surplus generated in the period of £113 million includes the expected surplus arising, the positive impacts from management actions delivered in the period and the inherent release of capital requirements from the run-off of the life funds. Partly offsetting these items is the adverse impact of falling yields on capital requirements and policy, together with the impact of the strengthening of stress assumptions in respect of longevity, credit and correlations. The prior period comparative included the positive impact of the completion of the legal transfer of certain portfolios of annuity liabilities to Guardian Assurance Limited.

RECURRING CASH OUTFLOWS

Operating expenses of £29 million (2013: £34 million) decreased as a result of reduced corporate office costs, primarily staff costs.

Pension scheme contributions of £88 million (2013: £96 million) decreased in line with the latest triennial funding agreement. This decrease was partially offset by a one-off £5 million payment to the PGL Pension Scheme in association with the restructuring of the scheme's exposure to longevity risk.

Debt interest decreased to £80 million (2013: £147 million), mainly reflecting lower debt principal balances following repayment and restructuring activity during the period, together with the impact of the closure of the Group's interest rate swap arrangements in the second half of 2013 which were included in the net outflow in the comparative period.

NON-RECURRING CASH OUTFLOWS

Non-recurring cash outflows reflect Group restructuring and corporate related projects. The increase compared to the prior year includes £14 million of consent fees paid in respect of the refinancing of the Group's bank facilities and a larger number of corporate projects of £22 million, including the divestment of Ignis. Also included are payments to the Employee Benefit Trust for the funding of share awards.

DEBT REPAYMENTS AND SHAREHOLDER DIVIDEND

As part of the debt reduction and refinancing that the Group achieved during the year, £250 million of the proceeds from the divestment of Ignis and £206 million from existing internal resources were used to prepay the old facility agreements.

Debt repayments of £85 million[1] were made in respect of the old facility agreements. A prepayment of £30 million and a scheduled repayment of £30 million were made in respect of the PGH Capital facility.

The shareholder dividend of £120 million comprises the payment of the 2013 final and 2014 interim dividend.

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

TARGET CASH FLOWS

The cumulative cash flow target for 2014 to 2019 is £2.8 billion, against which £957 million has been achieved by 31 December 2014. This includes the proceeds received from the divestment of Ignis.

Sources of cash flows	1 January 2014 to 31 December 2019 £bn
Future cash flows:	
Emergence of surplus[1]	0.9
Release of capital[1]	0.9
Total future cash flows target	1.8
Achieved cash flows	1.0
Operating companies' cash generation target	2.8

3 Includes cash flows from management actions.

The above target has been set on the assumption that Solvency II regulations operate as we expect.

The resilience of the cash generation target is demonstrated by the following stress testing:

Stress testing[1]	1 January 2014 to 31 December 2019

	£bn
Base case six-year target	2.8
20% fall in equity markets	2.7
15% fall in property values	2.8
75bps increase in nominal yields[2]	2.9
75bps decrease in nominal yields[2]	2.7
Credit spreads widening with no change in expected defaults[3]	2.5

1 Assumes stress occurs 1 January 2015 and there is no recovery during the target period.

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

3 11-15 year term: AAA – 46bps, AA – 69bps, A – 102bps, BBB – 144bps.

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

GROUP MCEV

£2,647m

2013: £2,378m

GROUP MCEV

GROUP MCEV OPERATING EARNINGS[1]

The Group has generated MCEV operating earnings after tax of £288 million (2013: £350 million).

MCEV operating earnings	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Life MCEV operating earnings[2]	341	401
Management services operating profit	36	32
Ignis operating profit – discontinued operations	17	49
Group costs	(28)	(27)
Group MCEV operating earnings before tax	366	455
Tax on operating earnings	(78)	(105)
Group MCEV operating earnings after tax	288	350

1 The Phoenix Group Market Consistent Embedded Value methodology (referred to herein and in the supplementary information as MCEV) is set out in note 1 in the MCEV supplementary information.

The Ignis (prior to its divestment on 1 July 2014) and management services businesses are included in the Group MCEV at the value of IFRS net assets. The Group MCEV does not include the future earnings from their businesses.

2 Life MCEV operating earnings are derived on an after tax basis. For presentational purposes life MCEV operating earnings before tax have been calculated by grossing up the after tax life MCEV operating earnings. Life MCEV operating earnings before tax of £341 million (2013: £401 million) are therefore calculated as £268 million operating earnings (2013: £308 million) grossed up for tax at 21.50% (2013: 23.25%).

LIFE MCEV OPERATING EARNINGS AFTER TAX

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

Life MCEV operating earnings after tax	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Expected existing business contribution	137	125
New business value	11	18
Non-economic experience variances and assumption changes:		
Experience variances	53	79
Assumption changes	(15)	3
Other operating variances	82	83
Total non-economic experience variances and assumption changes	120	165
Life MCEV operating earnings after tax	268	308

Expected existing business contribution

The Group uses long-term investment returns in calculating the expected existing business contribution. The expected contribution in 2014 of £137 million after tax is £12 million higher than in 2013, primarily due to an increase in the long-term risk-free rate used to calculate operating earnings. The long-term risk-free rate is based on the opening position at 1 January 2014.

New business value

New business profits generated from vesting annuities without guarantees during 2014 were £11 million after tax (2013: £18 million). New business value represents the value of vesting pension policies not reflected in the opening MCEV. These arise from pension policies which have no attaching annuity guarantees. The volume of new annuity business has reduced compared to the prior period, reflecting the impacts of pension reforms announced in the 2014 Budget and the deferral of policyholder retirement decisions until the provisions fully come into force in April 2015.

The new business margin is 7% after tax (2013: 6%) and represents the ratio of the net of tax new business value to the amounts received as new single premiums.

In addition, the MCEV includes the value of future profits expected to be earned on annuities with guaranteed rates, based on long-term profit margins and projected take-up rate assumptions. As at 31 December 2014, the Group MCEV included £163 million in respect of these policies (2013: £191 million).

Non-economic experience variances and assumption changes

Non-economic experience variances and assumption changes increased MCEV by £120 million after tax (2013: £165 million). The main drivers of the increase are other operating variances of £82 million (2013: £83 million), comprising the one-off positive impacts of actuarial modelling enhancements reflecting the implementation of the Group's new actuarial system and refinements to the modelling of credit default risk, together with experience variances of £53 million (2013: £79 million) principally reflecting benefits from data cleansing projects and balance sheet reviews completed in the period and favourable longevity experience. This has been partly offset by negative assumption changes of £15 million (2013: positive £3 million) resulting from the adverse impact of the assumed reduction in take-up of guaranteed annuities following the pension reforms announced in the 2014 Budget.

MANAGEMENT SERVICES AND IGNIS OPERATING PROFIT

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

GROUP COSTS

Group costs of £28 million (2013: £27 million) include costs relating to Group functions and project spend of £27 million and the IAS 19 pension charge of £1 million on the Pearl Group pension scheme which was in deficit at the start of the year.

RECONCILIATION OF GROUP MCEV OPERATING EARNINGS TO GROUP MCEV EARNINGS

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Group MCEV operating earnings after tax	288	350
Economic variances on life business	54	138
Economic variances on non-life business	(64)	(48)
Other non-operating variances on life business	(94)	(35)
Non-recurring items on non-life business	317	(61)
Finance costs attributable to owners	(90)	(140)
Tax on non-operating earnings	–	(42)
Group MCEV earnings after tax	411	162

ECONOMIC VARIANCES ON LIFE BUSINESS

Positive economic variances on life business of £54 million (2013: positive £138 million) reflect the impacts of falling yields, lower inflation and positive equity and property returns in the period. These have been partly offset by the negative impacts of the difference between actual short-term returns and the long-term investment return assumptions used to determine operating earnings, widening credit spreads, adverse policyholder tax variances arising on investment gains in the period on the fixed interest portfolio and increases in the market value of the Phoenix Life Limited subordinated debt of £7 million.

ECONOMIC VARIANCES ON NON-LIFE BUSINESS

Economic variances on non-life business are negative £64 million (2013: negative £48 million), reflecting the increased market value of the Tier 1 notes and the PGH Capital senior bond which have decreased MCEV earnings by £61 million (2013: decrease of £84 million). Other economic variances had a net impact of negative £3 million. The 2013 result included fair value gains of £33 million on interest rate swaps held by the Group companies which were closed out in the second half of 2013.

OTHER NON-OPERATING VARIANCES ON LIFE BUSINESS

Other non-operating variances on life business decreased Group MCEV by £74 million on a net of tax basis (2013: negative £27 million net of tax) and comprise a loss of £20 million in relation to an anticipated reduction in future profits arising from external regulatory changes to the cap on workplace pension charges, £19 million relating to anticipated VAT costs on future management investment expenses and other implementation costs arising from the divestment of Ignis, a £12 million loss arising from the reinsurance agreement to transfer annuity in-payment liabilities held within the with-profit funds to Guardian Assurance Limited and a £31 million reduction in the value of in-force business to reflect the impact of debt repayments, refinancing and other corporate activity on expected tax attributes available to the Group to relieve tax on emerging surpluses. This has been partly offset by a gain of £23 million arising from the restructure of Phoenix Life Limited's exposure to longevity risk from the PGL Pension scheme. Net other items decreased MCEV by £15 million.

NON-RECURRING ITEMS ON NON-LIFE BUSINESS

Non-recurring items on non-life business increased embedded value by £317 million before tax (2013: £61 million reduction). Non-recurring items include a gain of £288 million on the divestment of Ignis and £68 million of income received by Pearl Group Holdings (No. 1) Limited ('PGH1') from the with-profits funds in relation to the close-out of the PGL Pension Scheme longevity indemnity agreement. Partly offsetting this income are £11 million of Group corporate project costs and debt issue costs of £16 million. Net other one-off items had a negative impact of £12 million and included costs associated with system transformation and regulatory change.

Non-recurring items in the comparative period included arrangement and structuring fees of £21 million associated with the re-terming of the Impala loan facility, a loss from a pension liability management exercise of £9 million and £31 million of regulatory change, systems transformation and restructuring costs incurred by the management services companies, together with corporate project and other one-off costs.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Year ended 31 December 2014	Year ended 31 December 2013

	£m	£m
Debt finance costs[1]	64	114
Tier 1 notes coupon	26	26
Finance costs attributable to owners	90	140

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

Debt finance costs have decreased by £50 million, reflecting lower debt principal balances following repayments and restructuring activity during the period, together with the impact of the closure of the Group's interest rate swap arrangements in the second half of 2013 which were responsible for a net finance charge in the comparative period.

GROUP MCEV

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

Movement in Group MCEV	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Group MCEV at 1 January	2,378	2,122
Group MCEV earnings after tax	411	162
Other comprehensive income:		
Remeasurements and contributions on defined benefit pension schemes (net of tax)	(27)	(16)
Capital and dividend flows	(115)	110
Group MCEV at 31 December	2,647	2,378

Pension contributions of £16 million (net of tax) in respect of the PGL Pension Scheme (2013: £18 million) and £54 million (net of tax) in respect of the Pearl Group Staff Pension Scheme (2013: nil as the scheme was in deficit) were recognised in other comprehensive income during the period. This was partly offset by an actuarial gain of £43 million (net of tax) (2013: £2 million gain) which was recognised in relation to the Pearl Group Staff Pension Scheme and was capped at the point at which the scheme returned to surplus on an IFRS basis. Planned future contributions will cause a strain to the MCEV as pension surpluses are not recognised under the Group's MCEV basis.

Capital and dividend flows in the period primarily comprise external dividend payments of £120 million and movements in the own shares held balance. The
comparative period primarily comprised ordinary share capital issued of £233 million (net of associated fees and commissions) less external dividend payments of £120 million.

GROUP IFRS OPERATING PROFIT

£483m

2013: £439m

IFRS OPERATING PROFIT

GROUP IFRS OPERATING PROFIT

The Group has generated an IFRS operating profit of £483 million (2013: £439 million).

Following the completion of the divestment of Ignis on 1 July 2014, its results have been classified as arising from discontinued operations in the IFRS financial statements for the period.

Group operating profit	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Phoenix Life	487	414
Ignis – discontinued operations	17	49
Group costs	(21)	(24)
Operating profit before tax[1]	483	439

1 Operating profit is presented before adjusting items. See table on page 32 for details of adjusting items.

PHOENIX LIFE

Operating profit for Phoenix Life is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudential margins and the interest cost of unwinding the discount on the liabilities). The principal assumptions underlying the calculation of the longer-term investment return are set out in note 6 to the IFRS consolidated financial statements.

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

Phoenix Life operating profit	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
With-profit	89	106
With-profit where internal capital support provided	33	20

Non-profit and unit-linked	320	243
Longer-term return on owners' funds	9	13
Management services	36	32
Phoenix Life operating profit before tax	487	414

The owners' one-ninth share of the policyholder with-profit bonus of £89 million decreased by £17 million on the 2013 result. This reflects lower levels of endowment policy maturities, offset by increased estate distribution. The 2013 result included a one-off benefit of £10 million taken in 2013 from shareholder transfers that were underestimated in previous years.

The with-profit funds where internal capital support has been provided generated an operating profit of £33 million (2013: £20 million). The increase compared to the prior period reflects lower take up rates of policyholder guarantees in light of the pensions reforms announced in the 2014 Budget which have reduced the expected costs associated with these guarantees.

The operating profit on non-profit and unit-linked funds was £320 million (2013: £243 million). The increase compared to the prior period reflects higher one off positive impacts of £167 million (2013: £88 million) from:

– modelling enhancements reflecting the implementation of the Group's new actuarial modelling system;

– refinements to the modelling of credit default and longevity risk; and

– the impact of balance sheet, processes and controls reviews conducted in the period.

Partly offsetting these positive movements is a £12 million reduction in the value generated on annuity new business of £24 million (2013: £36 million). Of this, £9 million related to policies without guaranteed annuity rates (2013: £16 million).

The longer-term return on owners' funds of £9 million (2013: £13 million) reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities. The reduction compared to the prior year reflects the upstreaming of dividends in the period. The investment policy for managing these assets remains prudent.

The operating profit for management services of £36 million (2013: £32 million) comprises income from the life companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs. The increase compared to the prior year reflects lower staff and outsource partner costs partly offset by the impacts of life company run-off and the transfer of annuity policies to Guardian Assurance Limited in 2013.

IGNIS

The operating profit of the asset management business of £17 million represents its divisional result for the six months prior to its divestment from the Group on 1 July 2014. Ignis has been classified as a discontinued operation in the period.

GROUP COSTS

Group costs were £21 million (2013: £24 million) in the period. The decrease in Group costs compared to the prior period relates to lower pension scheme costs, reflecting a lower opening IAS 19 pension scheme liability for the Pearl Staff Pension Scheme and a higher opening IAS 19 pension scheme asset for the PGL Pension Scheme. Group costs in the period have also benefited from lower staff costs.

IFRS RESULT AFTER TAX

The IFRS operating result is reconciled to the IFRS result after tax, as follows:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 restated £m
Operating profit before adjusting items	483	439
Investment return variances and economic assumption changes on long-term business	12	64
Variance on owners' funds	(14)	(31)
Amortisation of acquired in-force business and other intangibles	(103)	(118)
Non-recurring items	126	(11)
Profit before finance costs attributable to owners	504	343
Finance costs attributable to owners	(88)	(126)
Profit before the tax attributable to owners:		
From continuing operations	336	268
From discontinued operations	80	(51)
	416	217
Tax (charge) attributable to owners from continuing operations	(22)	(26)
Tax credit attributable to owners from discontinued operations	12	16
Profit for the period attributable to owners	406	207

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

Positive investment return variances of £12 million in 2014 (2013: £64 million) include the minority share of the result of the consolidated UKCPT property investment structure of £75 million (2013: £42 million). The remaining negative variance of £63 million is principally driven by the impacts of falling yields, both on short asset positions held relative to the IFRS basis liabilities and from adverse policyholder tax variances arising on resultant investment gains on fixed interest assets in the period, together with the negative impact of widening credit spreads. Partly offsetting these items are the positive impacts of lower inflation and improved property returns.

VARIANCE ON OWNERS' FUNDS

The negative variance on owners' funds of £14 million for 2014 (2013: £31 million negative) is principally driven by fair value losses on swap and hedging positions held within the shareholder funds of the life companies. The reduction in the negative variance compared to 2013 reflects lower losses on equity index futures and credit default swaps compared to the prior year. The majority of interest rate swaps held by the shareholder funds and holding companies in relation to the Group's bank debt were closed out during 2013.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the operating companies in 2009. The acquired in-force business is being amortised in line with the run-off of the life companies. Amortisation of acquired in-force business during the period totalled £88 million (2013: £99 million). Amortisation of other intangible assets totalled £15 million in the period (2013: £19 million).

NON-RECURRING ITEMS

Non-recurring items include the gain on the disposal of Ignis of £107 million and £68 million of income received by PGH1 in relation to the close-out of the PGL Pension Scheme longevity indemnity agreement with the with-profit funds, partly offset by £17 million of adverse financial impacts associated with external regulatory changes, including the cap on workplace pension charges, corporate project costs of £15 million and net other one-off items of negative £17 million, including costs associated with the implementation of Solvency II and systems transformation projects. The 2013 result included a £42 million gain on completion of the legal transfer of annuity liabilities to Guardian Assurance Limited and the adverse impact of arrangement and structuring fees of £21 million associated with the re-terming of the Impala loan facility.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Year ended 31 December 2014 **£m**	Year ended 31 December 2013 £m
Debt finance costs[1]	65	114
Other finance costs	23	12
Finance costs attributable to owners	88	126

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

Debt finance costs have decreased by £38 million, reflecting lower debt principal balances following debt repayments and restructuring during the period and closure of the Group's interest rate swap arrangements in the second half of 2013 which were responsible for a net finance charge in the comparative period.

TAX CREDIT ATTRIBUTABLE TO OWNERS

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

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

The Group tax charge for the period attributable to owners from continuing operations is £22 million (2013: £26 million)based on a profit (after policyholder tax) of £336 million (2013: £268 million). The actual charge is lower than the expected charge (based on the UK corporation tax rate of 21.5%) of £72 million primarily due to certain profit being either non-taxable or taxable at rates other than the standard rate and the recognition of previously unrecognised deferred tax assets (see note 13 to the IFRS consolidated financial statements for analysis with respect to continuing operations). The tax credit attributable to discontinued operations is £12 million.

CAPITAL MANAGEMENT

£1.2bn

2013: £1.2bn

IGD SURPLUS (ESTIMATED)

£0.7bn

2013: £1.2bn

PLHL ICA SURPLUS (ESTIMATED)

For further details of the regulatory capital requirements of the individual life companies
See note 39 of the IFRS consolidated financial statements.

CAPITAL MANAGEMENT FRAMEWORK

The Group's capital management framework is designed to achieve the following objectives:

- To provide appropriate security for policyholders and meet all regulatory capital requirements while not retaining unnecessary excess capital
- To ensure sufficient liquidity to meet obligations to policyholders and other creditors
- To optimise the overall gearing ratio to ensure an efficient capital base
- To meet the dividend expectations of shareholders as set by the Group's dividend policy.

The framework comprises a suite of capital management policies that govern the allocation of capital throughout the Group to achieve these objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, dividend policy and regulatory capital requirements.

The capital policy of the holding companies ensures sufficient liquidity to meet creditor obligations. This is monitored at both Executive Committee and Board level.

Targets are established in relation to regulatory capital requirements and debt ratios and are used in managing capital in accordance with the Group's risk appetite and the interests of its stakeholders.

The capital policy of each life company is set and monitored by each life company board. These policies ensure there is sufficient capital within each life company to meet regulatory capital requirements under a range of stress conditions. The capital policy of each life company varies according to the risk profile and financial strength of that company.

REGULATORY CAPITAL REQUIREMENTS

IGD surplus (estimated)

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

The Group's IGD assessment is made at the level of the highest EEA insurance group holding company, which is Phoenix Life Holdings Limited ('PLHL'), a subsidiary of Phoenix Group Holdings. The estimated IGD surplus at 31 December 2014 is £1.2 billion (2013: £1.2 billion). The components of the estimated IGD calculation are shown below:

	31 December 2014 **£bn**	31 December 2013 £bn
Group capital resources ('GCR')	5.5	5.4
Group capital resource requirement ('GCRR')	(4.3)	(4.2)
IGD surplus (estimated)	1.2	1.2

The IGD surplus has remained stable during the year as a result of the following offsetting factors:

– positive impact of the divestment of Ignis of £0.2 billion;

– dividend payments, debt financing and repayments of £0.6 billion, including the £206 million debt prepayment associated with the £900 million debt facility refinancing and the £250 million payment associated with the divestment of Ignis; offset by

– capital generation items of £0.4 billion, including capital benefits from management actions such as the close-out of the PGL Pension Scheme longevity indemnity agreement.

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

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

– 145% of the GCRR less the WPICC.

The Group's headroom above the IGD regulatory capital policy at 31 December 2014 was £0.5 billion (2013: £0.5 billion).

PLHL ICA surplus (estimated)

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

As agreed with the PRA, the Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million. The estimated PLHL ICA position at 31 December 2014 is set out below:

	31 December 2014 **£bn**	31 December 2013 £bn
Capital resources[1]	1.0	1.5
Capital resource requirements[2]	(0.3)	(0.3)
PLHL ICA surplus (estimated)	0.7	1.2

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

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

For further details of the Pillar 1 capital resources of the individual life companies
See note 39 of the IFRS consolidated financial statements.

Headroom over the Group's £150 million capital policy was £0.6 billion as at 31 December 2014 (2013: £1.1 billion).

The reduction in the estimated PLHL ICA surplus of £0.5 billion reflects:

– the positive impacts of the divestment of Ignis of £0.2 billion;

– dividend payments, debt financing and repayments of £0.8 billion, including the £206 million debt prepayment associated with the £900 million debt facility refinancing and the £250 million payment associated with the divestment of Ignis;

– an adverse impact of £0.2 billion reflecting the strengthening of ICA stress assumptions related to longevity, credit and correlations; and

– capital generation in the period of £0.3 billion, including the positive impact of management actions delivered in the period of £0.2 billion, partly offset by the adverse impact of falling yields on the PLHL ICA surplus.

SENSITIVITY AND SCENARIO ANALYSIS

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

	Estimated IGD surplus	Estimated PLHL ICA surplus
Base: 31 December 2014	1.2	0.7
Following a 20% fall in equity markets	1.2	0.6
Following a 15% fall in property values	1.2	0.6

Following a 75bps increase in nominal yields[1]	1.1	0.8
Following a 75bps decrease in nominal yields[1]	1.2	0.6
Following credit spread widening[2]	1.2	0.5

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

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

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

CAPITAL RESOURCES

The primary sources of capital used by the Group comprise equity shareholder funds as measured on an MCEV basis, the Perpetual Reset Capital Securities (Tier 1 notes) and shareholder borrowings.

LEVERAGE

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

Gearing ratio

The Group previously monitored the level of debt in its statement of consolidated financial position by reference to the gearing ratio calculated as gross shareholder debt (gearing basis)[1] as a percentage of gross MCEV[2]. Having completed the divestment of Ignis and comprehensive debt refinancing in July, the gearing ratio as at 31 December 2014 under the Group's methodology reduced to 34% (2013: 44%), thus meeting our original 40% target ahead of schedule.

1 Gross shareholder debt (gearing basis) is defined as the sum of the IFRS carrying value of the shareholder debt and 50% of the IFRS carrying value of the Tier 1 notes given the hybrid nature of that instrument.

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

Gross shareholder debt (gearing basis) and shareholder debt (including hybrid debt) included in MCEV at 31 December 2014 are set out in the table below:

	31 December 2014 £m	31 December 2013 £m
Bank debt		
– Pearl facility	–	327
– Pearl loan notes	–	76
– Impala facility	–	1,182
Royal London PIK notes and facility	–	121
PGH Capital facility	828	–
PGH Capital senior bond	298	–
PLL subordinated debt	149	151
Tier 1 notes at 50% of IFRS carrying value (see note 20 to the IFRS consolidated financial statements)	204	204
Gross shareholder debt (gearing basis)	1,479	2,061
Adjustments to include the following items at fair value:		
PLL subordinated debt	63	54
PGH Capital senior bond	24	–
Tier 1 notes (100% of fair value)	183	146
Adjustment to include the following item at face value:		
PGH Capital facility	12	–
Shareholder debt (including hybrid debt) included in MCEV	1,761	2,261

The Group's gross shareholder debt decreased by £582 million to £1,479 million in the year. This reduction includes the impacts of the £250 million prepayment following the divestment of Ignis, the £206 million prepayment from internal resources relating to the £900 million debt facility refinancing, a £30 million targeted prepayment and a £30 million scheduled repayment made during the period in respect of the Impala facility, a scheduled repayment of £25 million[1] made in respect of the Pearl loan facility, and a £30 million targeted prepayment and a scheduled £30 million repayment in respect of the PGH Capital facility.

In January 2015, the Group announced the exchange of 99% of the Group's Tier 1 notes for £428 million of new subordinated notes, issued by PGH Capital. As the new bonds mature in 2025, the bonds will be included in the gearing calculation at 100% of their IFRS carrying value in future reporting periods. Had the Tier 1 notes exchange and associated coupon payment occurred on 31 December 2014, the gearing ratio would have increased to 38%.

In light of the completion of the Tier 1 notes exchange and in order to align the Group's measure of its level of debt to that used to determine the interest margin payable on its bank facilities, the Group will monitor the financial leverage ratio going forwards. Details on its calculation are included below.

Further detail on shareholder debt is included in note 23 to the IFRS consolidated financial statements.

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

Financial leverage ratio

In addition to the gearing ratio, management also monitor the level of its debt by reference to the financial leverage ratio. The financial leverage ratio is used to determine the interest margin payable on the PGH Capital bank facility.

The financial leverage ratio is calculated as gross shareholder debt (financial leverage basis) as a percentage of gross MCEV. The definition of gross shareholder debt (financial leverage basis) differs from that used in the gearing ratio, as the debt instruments are included at their notional face values as opposed to their IFRS carrying values. The Tier 1 notes are included at 100% of their face value. Gross MCEV is calculated on a consistent basis to the gearing ratio calculation.

The table below sets out the calculation of gross shareholder debt (financial leverage basis):

	31 December 2014 £m	31 December 2013 £m
Bank debt		
– Pearl facility	–	327
– Pearl loan notes	–	76
– Impala facility	–	1,182
Royal London PIK notes and facility	–	121
PGH Capital facility	840	–
PGH Capital senior bond	300	–
PLL subordinated debt	200	200
Tier 1 notes[1]	394	394
Gross shareholder debt (financial leverage basis)	1,734	2,300

1 Total face value of the Tier 1 notes is £425 million, of which bonds with a face value of £31 million are held by Group companies.

The financial leverage ratio as at 31 December 2014 reduced to 39.3% (2013: 49.6%). The drivers of the reduction are consistent with the movement in the gearing ratio and the reduction below 40% has reduced the margin above LIBOR payable on the PGH Capital bank facility from 350bps to 312.5bps. Had the Tier 1 notes exchange and associated coupon payment occurred on 31 December 2014, the financial leverage ratio would have been 39.7%.

The Group will target a financial leverage level consistent with the achievement of an investment grade rating.

LIQUIDITY MANAGEMENT

Details of the Group's objectives and policies for the management of liquidity risk are included within the Risk management section and note 40 of the IFRS consolidated financial statements.

For further details of shareholder debt
See note 23 of the IFRS consolidated financial statements.

RISK MANAGEMENT

THE GROUP OPERATES A RISK MANAGEMENT FRAMEWORK ('RMF') WHICH SEEKS TO ESTABLISH A COHERENT AND PROACTIVE SET OF ARRANGEMENTS AND PROCESSES TO SUPPORT THE EFFECTIVE MANAGEMENT OF RISK THROUGHOUT THE GROUP.

THE GROUP'S RISK MANAGEMENT FRAMEWORK

The RMF comprises ten components which are set out in detail below. The outputs of the RMF provide assurance that all risks are being appropriately identified and managed effectively and that an independent assessment of management's approach to risk management is being performed.

During the year, the Group has continued to strengthen and embed the components of the RMF to ensure that they are aligned with evolving regulatory requirements including Solvency II.

The new provisions of the UK Corporate Governance Code (September 2014) apply to Phoenix Group Holdings from the financial year commencing 1 January 2015. We are well placed to comply with the new risk management and internal control provisions and, as required, will report against them in our 2015 Annual Report.

One of the new provisions in the Code relates to being able to monitor the Company's RMF. Group Risk conducts an annual assessment of the Group's adherence to the RMF. Now in its third year, this assessment, known as Operation of the Risk Management Framework (ORMF) provides assurance to management and the Boards that the RMF has been implemented consistently and is operating effectively across the Group.

An effective and embedded RMF supports the delivery of the Group's strategy by ensuring that risks are identified, measured, managed, monitored and reported in a consistent manner.

In addition to these activities, Group Risk has conducted a number of independent reviews of the management of the most material risks to which the Group is exposed.

RISK STRATEGY

The Group's risk strategy provides an overarching view of how risk management is incorporated consistently across all levels of the business, from decision-making to strategy implementation. It also sets out how risk management within the Group is proportionate to the nature, scale and complexity of the risks faced by the business.

RISK APPETITE

The Group's risk appetite framework consists of a set of statements and targets that articulate the level of risk the Group is willing to accept, in pursuit of shareholder value and achievement of the Group's strategic objectives. The statements encapsulate policyholder security, earnings volatility, liquidity and the internal control environment as follows:

- Capital – The Group and each life company will hold sufficient capital to meet regulatory requirements in a number of asset and liability stress scenarios.
- Cash flow – The Group will seek to ensure that it has sufficient cash flow to meet its financial obligations and will continue to do this in a volatile business environment.
- Embedded value – The Group will take action to protect embedded value.
- Regulation – The Group and each life company will, at all times, operate a strong control environment to ensure compliance with all internal policies and applicable laws and regulations, in a commercially effective manner.
- Conduct – Phoenix has zero appetite for deliberate acts of misconduct, including omissions that result in customer detriment, reputational damage and/or pose a risk to the Financial Conduct Authority (FCA) statutory objectives.

The risk appetite and control framework supports the Group in operating within the boundaries of these statements by seeking to limit the volatility of key parameters, under a range of adverse scenarios agreed with the Board. Risk appetite limits are chosen which specify the maximum acceptable likelihood for breaching the agreed limits. Assessment against the appetite targets is undertaken through scenario testing.

RISK UNIVERSE

A key element of effective risk management is to ensure that the business has a complete and robust understanding of the risks it faces. Within the Group, these risks are set out, categorised and defined in the risk universe.

The risk universe allows the Group to deploy a common risk language, allowing for meaningful comparisons to be made across business units. There are three levels of risk universe categories. The highest risk universe category is Level 1 and these risks are set out below:

- Strategic
- Customer
- Financial soundness
- Market
- Credit
- Insurance
- Operational.

These risks are monitored and reported across the organisation to ensure that they are adequately managed.

EXTERNAL COMMUNICATION AND STAKEHOLDER MANAGEMENT

The Group has a number of internal and external stakeholders, each of whom has an active interest in the Group's performance, including how risks are managed. Significant effort is made to ensure that our stakeholders have appropriate, timely and accurate information to support them in forming views of the Group.

GOVERNANCE, ORGANISATION AND POLICIES

GOVERNANCE

Overall responsibility for approving, establishing and embedding the RMF rests with the Board. The Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated authorities and responsibilities from the Group Board to the PLHL Board, the Boards of Phoenix Life and the Executive Committee.

The RMF is underpinned by the operation of a three lines of defence model with clearly defined roles and responsibilities for statutory boards and their committees, management oversight committees,
Group Risk and Group Internal Audit.

First line: Management

Management of risk is delegated from the Board to the Group Chief Executive Officer, Executive Committee members and through to business managers. A series of business unit management oversight committees operate within the Group. They are responsible for implementation of the RMF, ensuring the risks associated with the business activities are identified, assessed, controlled, monitored and reported.

Second line: Risk Oversight

Risk oversight is provided by the Group Risk function and the Board Risk Committee. The Board Risk Committee comprises four Non-Executive Directors, three of whom are independent. It is supported by the Chief Risk Officer and met seven times during 2014.

Third line: Independent Assurance

Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the Group Internal Audit function, which is supported by the Board Audit Committee.

ORGANISATION

The Chief Risk Officer manages the Group Risk function and has responsibility for the implementation and oversight of the Group's RMF. The Group Risk function has responsibility for oversight over financial, operational and regulatory risk. The PRA/FCA relationship team manages the relationship and interactions with our primary regulators and reports to the Chief Risk Officer.

POLICIES

The Group policy framework comprises a set of 30 policies that support the delivery of the Group's strategy by establishing operating principles and expectations for managing the key risks to our business. The policy set contains the minimum control standards to which each business unit must adhere to and against which they report compliance. The policies define:

the individual risks the policy is intended to manage;

the degree of risk the Group is willing to accept, which is set out in the policy risk appetite statements;

the minimum controls required in order to manage the risk to an acceptable level; and

the frequency of the control's operation.

Each policy is the responsibility of a member of the Executive Committee who is charged with overseeing compliance throughout the Group.

BUSINESS PERFORMANCE AND CAPITAL MANAGEMENT

Business unit plans are assessed to ensure that they do not breach any of the Board's risk appetite statements over the planning horizon. Business performance is routinely monitored at a business unit executive level with consolidated reporting against the annual operating plan approved by the Board and reviewed by the Executive Committee.

The Group's business units operate capital management processes that meet the Group's Capital Management Policy. Under these processes, capital is allocated across risks where capital is held as a mitigant and, in turn, to individual risk owners who hold risk capital budgets. The amount of risk capital required is reviewed regularly to ensure the risk exposure remains within budget. Any requests to increase budgets are referred to the relevant business unit for approval.

RISK AND CAPITAL ASSESSMENT

The Group operates a standardised assessment framework for the identification and assessment of the different types of risk it may be exposed to and how much capital should be held in relation to those exposures. This framework is applicable across the Group and establishes a basis, not only for the approach to risk assessment, management and reporting but also for determining and embedding capital management at all levels of the Group.

Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the Group's objectives. Stress and scenario tests are used to support the assessment of risk and provide analysis of their financial impact.

MANAGEMENT INFORMATION

Overall monitoring and reporting against the risk universe takes place in business unit management committees and Boards. This is then reported to the Executive Committee, PLHL Board and the Group Board via regular risk reporting.

The Board Risk Committee receives a consolidated risk report on a quarterly basis, detailing the risks facing the Group and the overall position against risk appetite limits. The Board Risk Committee is also provided with regular reports on the activities of the Group Risk function.

PEOPLE AND REWARD

Effective risk management is central to the Group's culture and its values. Processes are operated that seek to measure both individual and collective performance and discourage incentive mechanisms which could lead to undue risk taking. Training and development programmes are in place to support employees in their understanding of the operation of the RMF. During 2014, to assess how well the RMF is embedding across the Group and how this has impacted our employees, Group Risk conducted an annual Risk Culture survey. The results of this survey enable us to assess and measure our Risk Culture over time as well as being able to tailor training programmes to ensure the continued engagement and development of staff.

TECHNOLOGY AND INFRASTRUCTURE

The Group employs systems to support the assessment and reporting of the risks it faces. This enables management to document key risks and controls and evidence the assessment of them at a frequency appropriate to the operation of the control.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

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

Further details of the Group's exposure to financial and insurance risks and how these are managed are provided in note 40 of the IFRS consolidated financial statements.

RISK	IMPACT	MITIGATION	CHANGE FROM LAST YEAR
In times of severe market turbulence, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or it may suffer a loss in value.	The emerging cash flows of the Group may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's embedded value.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against unwanted customer and shareholder outcomes. The Group also maintains cash buffers in its holding companies to reduce reliance on emerging cash flows.	Risk Deteriorating Over the past year, the continuing decline in yields on UK government debt has put pressure on the Group's excess capital position. Actions have been implemented to partially offset this impact and the position is closely managed.
Significant counterparty failure.	Assets held to meet obligations to policyholders include debt securities. Phoenix Life is exposed to deterioration in the actual or perceived creditworthiness or default of issuers of relevant debt securities. The Group is also exposed to trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to	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 material	No Change The Group has improved its counterparty monitoring processes over 2014 to monitor exposure holistically across all counterparty obligations, both in respect of debt securities and trading.

	meet obligations assumed under reinsurance arrangements or stock-borrowers failing to pay as required. An increase in credit spreads on debt securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could have a material adverse impact on the Group's financial condition.	reinsurance and derivative positions are appropriately collateralised and guaranteed.	In some cases individual security holdings have been adjusted to ensure the Group remains within risk appetite.

RISK	IMPACT	MITIGATION	CHANGE FROM LAST YEAR
Adverse changes in experience versus actuarial assumptions.	The Group has liabilities under annuities and other policies that are sensitive to future longevity and mortality rates. Changes in assumptions may lead to changes in the assessed level of liabilities to policyholders. The amount of additional capital required to meet those liabilities could have a material adverse impact on the Group's embedded value, results, financial condition and prospects.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any variances in assumptions. The Group has also entered into a reinsurance contract to manage this risk within appetite.	No change There has been no adverse change in experience over the year.
The implementation of the Solvency II Directive may impair the ability of the Group to meet cash flow targets.	During 2014, our activities in relation to Solvency II have been focused primarily on the preparation of the Group's Internal Model Application (IMAP), as well as on monitoring the progress of the development of the Solvency II regulations. The UK insurance industry is still awaiting details from regulatory authorities on the specific details in relation to the implementation of Solvency II.	The Group continues to participate in the IMAP process and work closely with the PRA on the implementation of the Directive. Contingency plans have been developed to mitigate adverse outcomes, should these be required.	Risk Improving Over 2014, clarity on Solvency II regulations has improved but material uncertainties remain.
Changes in the regulatory and legislative landscape may impact the way that Phoenix Life has engaged with its customers.	The move to the conduct-focused regulator may see a continued move away from rules-based regulation with a greater focus on customer outcomes. This may challenge the existing approach and/or may result in remediation exercises where Phoenix Life cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator.	The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory change and the impact on our operations and lobbies where appropriate.	Risk Deteriorating 2014 saw a number of key regulatory changes to the UK life insurance sector. The financial impacts of several of these changes are still uncertain but the Group continues to take actions to prepare for the possible range of outcomes, including the way in which our customers react to the new options available at retirement.
Changes in the retirement marketplace may result in poor outcomes for customers.	The changes in the retirement marketplace have opened up a number of new options for customers. While these options provide greater flexibility for customers, there is a need for customers to ensure that they engage with the process to ensure that they make informed decisions that are suitable for their needs. Additionally, providers need to ensure that their processes facilitate effective decision making by customers. Failure to do this may result in a risk that a customer takes an option that they do not understand or that may not be appropriate for them.	Phoenix Life has made a number of changes to its retirement processes to take account of the changes. These include ensuring that appropriate risk warnings are provided to customers in advance of them taking a course of action. This is aligned to the new rules that the FCA have outlined in PS15/4.	New principal risk

The principal risk which the Group could be adversely affected by if it is unable to repay or refinance its debt when it falls due', has been removed given the progress the Group made with the debt reduction and refinancing activity in 2014 through the divestment of Ignis, the issuance of a £300 million senior unsecured bond and the refinancing of the Group's senior bank debt.

The current assessment of the residual risk in respect of each of the Group's principal risks is illustrated in the Annual Report and Accounts 2014 on page 41.

The residual risk is the remaining risk after controls and mitigating actions have been taken into account.

The Group's senior management and Board also take emerging risks into account when considering potentially adverse outcomes and appropriate management actions prior to the risk crystallising.

Some of the current emerging risks the Group considers are listed in the table below.

RISK TITLE	DESCRIPTION	RISK UNIVERSE CATEGORY
Regulatory Thematic Reviews	The unknown consequences and the potential impact, including retrospective activity, to the Group as a result of Thematic Reviews conducted by the regulators.	Customer
Operational and Financial Impact of Retirement Market Changes	Operational and financial implications of system and process changes for April 2015 and potential spike in retirement requests.	Customer
Political Risk	Unexpected changes driven by political agenda in run up to, and following, the general election in May 2015.	Strategic

CORPORATE RESPONSIBILITY

2014 WAS ABOUT CONTINUING TO EMBED CORPORATE RESPONSIBILITY INTERNALLY, ENCOURAGING MORE STAFF TO TAKE PERSONAL RESPONSIBILITY, AND INCREASING THE NUMBERS GETTING INVOLVED IN GROUP-WIDE INITIATIVES.

£238,000

donated to the Group's chosen charities of the year.

The full Corporate Responsibility
is available on the Group's website at www.thephoenixgroup.com/CRreport2014

HIGHLIGHTS

The aim for 2014 was to further raise awareness of the Group's Corporate Responsibility ('CR') programme, whilst encouraging a greater number of staff to get involved. Highlights include:

- CR goals launched with a three to five year focus
- Inclusion in 'Britain's Top Employers' listing for third consecutive year
- Sixth place in 'Britain's Healthiest Company' benchmark
- Signed the 'Time to Change' Pledge, focusing on mental wellbeing in the workplace
- £238,000 donated to the Group's chosen charities of the year
- £10,000 donated to community-based initiatives
- £14,000 donated through staff matched fundraising scheme
- 570 hours donated through staff volunteering programmes
- Entered the CR Index for the first time
- 87% of staff believing we do the right amount to promote CR
- 75% of staff actively involved in 'making a difference'.

The full Corporate Responsibility Report is available on the Group's website at www.thephoenixgroup.com/CRreport2014

This report provides an overview of the Group's 2014 Corporate Responsibility programme.

Goals were launched at the start of the year for each area we report CR against, namely Environment, Workplace, Community and External Stakeholders. In addition a revised governance structure was launched, introducing new senior management buy-in and an increased level of CR engagement across teams.

GOVERNANCE

The CR programme is sponsored by the Group Chief Executive Officer, with all Executive Management team members receiving an update on CR activity every six months. A CR Steering Group was formed at the start of the year, introducing a new layer of CR governance and involves two members of the Executive Management team. The Steering Group meets quarterly to agree the CR programme of activity and overarching strategy.

Working groups were formed, each focusing on a specific CR goal. Meetings are held monthly and involve champions from various levels across the organisation, promoting cross-functional working and representing both of the Group's core sites.

ENVIRONMENT – OUR COMMITMENT TO MONITORING AND REDUCING OUR ENVIRONMENTAL FOOTPRINT

We want our staff to work in an efficient workplace that routinely considers its impact on the environment.

The Group's biggest environmental impact is 'internal resource-use', so initiatives during the year have challenged existing working practices. The focus has been on educating staff, helping them understand how small changes can contribute towards making a big difference.

The launch of large screen technology in meeting rooms has encouraged a shift towards more paper-free meetings, as staff trial online meetings and video conferencing. Efforts continue to reduce waste produced onsite, London generates no waste to landfill, whilst Wythall has reduced its landfill waste from 36% to 4% since 2012.

The Group's partnership with the Heart of England Forest Limited continued into 2014, creating opportunities for staff volunteering. During 2015, the Group plans to plant a further 500 trees in its 'Phoenix Way Wood' and will work with local schools and the Country Trust to sponsor educational woodland visits.

5.79 tonnes

of CO_2e/FTE

This section includes mandatory reporting of greenhouse gas ('GHG') emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Emissions disclosed relate to properties within Phoenix Group's portfolios and properties occupied by Phoenix Group companies, as reported in our consolidated financial statement. Phoenix Group has no responsibility for any emission sources that are not included in our consolidated financial statement.

Emissions have arisen principally through the combustion of gas for heating (Scope 1) and the purchase of electricity (Scope 2). Approximately one third of 2014 emissions are estimated as full year data is not yet available for all properties. A sample of emissions from fuel use for transport, back-up generation and fluorinated gases were calculated and were determined to be non-material to the overall footprint, so have not been included.

Data reported is based on the main requirements of the ISO14064 Part 1 and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition); data gathered for on-going reporting against the UK Carbon Reduction Commitment ('CRC') scheme and energy and fuel consumption data for owned or occupied properties has been used to calculate the carbon footprint. The Government's Conversion Factors for Company Reporting 2014 have been used to convert energy data into CO2e emissions.

As this is the second year of mandatory greenhouse gas emissions reporting, previous years' emissions have been included. Figures have been restated, including associated intensity metrics, as additional energy consumption data has been obtained since the previous report.

GREENHOUSE GAS EMISSIONS

GLOBAL GHG EMISSIONS DATA IN TONNES OF CO_2E

Emissions from:	January to December 2014	January to December 2013
Combustion of fuel and operation of facilities (Scope1)	3,053	3,836
Electricity, heat, steam and cooling purchased for own use (Scope 2)	11,209	13,565
Total Carbon Footprint (Tonnes of CO_2e)	14,262	17,401

PHOENIX GROUP'S CHOSEN INTENSITY MEASUREMENT

Emissions reported above normalised to per m^2	0.04 tonnes CO_2e/m^2	0.05 tonnes CO_2e/m^2
Emissions reported above normalised to kgs per m^2	39.94 kgs CO_2e/m^2	46.77 kgs CO_2e/m^2
Emissions from Group corporate offices normalised to per FTE	5.79 tonnes of CO_2e/FTE	4.96 tonnes of CO_2e/FTE

91%

of employees participated in the Group's employee engagement survey

WORKPLACE – HOW WE TREAT EMPLOYEES, INCLUDING HOW WE ATTRACT, DEVELOP AND RETAIN THE BEST TALENT

We want staff to take personal responsibility for CR.

We want our staff to be healthy, engaged and productive and recognise the importance of **each other's wellbeing**.

The Group continues to attract, develop and retain talented staff by offering a comprehensive range of benefits and development opportunities. The Group was included in 'Britain's Top Employers' listing for the third consecutive year, which is an accreditation awarded to the best companies to work for in the UK. In addition, the Group achieved sixth place in the mid-sized category for 'Britain's Healthiest Company'*.

* Benchmark in association with Pru Health, Mercer and The Telegraph.

The workplace agenda for 2014 focused on 'mental wellbeing'. A stress management training module was launched and the Group signed the 'Time to Change' Pledge, a campaign led by Mind and Rethink Mental Illness to redress the stigma surrounding mental health illness. In addition, a series of educational onsite wellbeing events were held, promoting the importance of diet and exercise, in addition to providing on-site health-checks for staff.

91% of employees participated in the Group's employee engagement survey. The overall 2014 employee engagement survey results represented a 2% increase compared to 2013 and again compared positively against the Financial Services benchmark. In addition, 75% of staff actively participated in on-site CR events during the year.

The Group's business ethics and dignity at work principles have regard for, and are aligned to, relevant Articles of the United Nations Universal Declaration of Human Rights.

Key employee metrics and diversity statistics are summarised below.

	2014	2013
Total workforce	748	1,192
Male	424	679
Female	324	513
Directors (includes Non-Executive Directors)	10	11
Male	8	10
Female	2	1
Senior Managers	8	9
Male	7	6
Female	1	3
Workforce **that is of Black, Asian or Minority Ethnic ('BAME') background**	107	213

570 hours

donated to staff volunteering activity

COMMUNITY – THE CONTRIBUTION WE MAKE TO THE COMMUNITIES IN WHICH WE OPERATE AND OUR OBLIGATIONS TO THE BROADER SOCIETY

We want our local community to know we are a responsible corporate citizen.

The Group chose to continue with a single cause again in 2014 for all staff-led fundraising and in excess of £232,000 was donated to Midlands Air Ambulance Charity and London's Air Ambulance. An additional £6,000 was donated to other charities the Group supported during the year, and £14,000 through the staff matched fundraising scheme, for causes supported by employees outside of work. £10,000 was donated to community-based initiatives, selecting partners from within the communities in which the Group's core sites are based. Support was provided to three local primary schools and a secondary school during the year, including funding towards a new mini-bus for school partners and other community groups.

Staff donated 570 hours to volunteering activity in the communities closest to our main office locations, which included support to Business in the Community's ('BITC') 'Give and Gain' Day, which is their national day of employee volunteering. The Group continued its partnership with The Money Charity, delivering financial education workshops to over 720 pupils.

All core sites were involved in assisting those in need in our local communities, through on-site collections of food items for local charities SIFA Fireside and the national Trussell Trust Food Bank, further promoting the Group's 'give-back initiative'.

EXTERNAL STAKEHOLDERS – OUR RELATIONSHIPS WITH THIRD PARTIES

We want our external stakeholders to know we are a responsible corporate citizen.

The Group has been a member of BITC since 2010 and with their guidance completed the Corporate Responsibility Index benchmark for the first time. This Index is a benchmark which is independently assessed alongside peers and other industries, to highlight the Group's contribution to future sustainability. Results will be communicated in 'Responsible Business Week 2015' and will help shape the Group's on-going CR programme.

The Group's relationships with customers, investors, outsource partners and other business partners, suppliers, regulators, Government and the media remain key in the development of its CR programme.

The Group is tackling the rise in pension scams by working with its partners to try and prevent transfers to suspicious schemes, whilst communicating this message to customers. So far, the Group's actions have prevented 1,074 people losing a total of £22.3 million in potential pension fraud. The Group's Financial Crime team is involved with the Pensions Liberation Industry Working Group and is contributing to the industry code of practice for preventing such scams.

CONCLUSION

2014 has been an important year with regards to the scale of CR achievements. Most notable the high levels of staff engagement, the embedding of CR into its corporate culture and addition of high-profile management sponsorship – all helping to create and drive a sustainable business into the future.

91% of staff completed the annual engagement survey, which included four questions specifically around CR. 68% of staff think it is important that the Group supports the wider community. 70% agree the Group places an appropriate level of importance on CR. 87% believe the Group does the right amount to promote CR internally, whilst 73% believe they take personal responsibility for CR.

Key Performance Indicators will be launched for each of the goals during 2015, with a view to creating further transparency and continued CR best practice.

The Group's new debt structure better matches our debt repayments to our cash flows.

GOVERNANCE

BOARD OF DIRECTORS

HOWARD DAVIES
CHAIRMAN

Howard Davies was appointed Chairman of the Board of Directors of the Company on 1 October 2012. Howard is the Chairman of the British Government's Airport Commission. He is also a Professor of Practice at the French School of Political Science in Paris (Sciences Po).
He was previously the Director of the London School of Economics and Political Science from 2003 until May 2011. Prior to this appointment he was Chairman of the UK Financial Services Authority from 1997 to 2003. From 1995 to 1997 he was Deputy Governor of the Bank of England, after three years as the Director General of the Confederation of British Industry. Earlier in his career he worked in the Foreign and Commonwealth Office, the Treasury, McKinsey and Co. and as Controller of the Audit Commission. He has been an Independent Director of Morgan Stanley Inc. since 2004, and is Chairman of the risk committee. He is also Chairman of the risk committee at Prudential PLC, whose board he joined in 2010. He is a Director of the Royal National Theatre, whose board he joined in 2011. He is a member of the Regulatory and Compliance Advisory Board of Millennium LLC, a New York-based hedge fund. He has also been a member of the International Advisory Council of the China Banking Regulatory Commission since 2003 and, from 2012, is Chairman of the International Advisory Council of the China Securities Regulatory Commission. He is Chairman of the Board Nomination Committee. As previously reported and referred to within the 2014 Annual Report, Howard Davies will be leaving Phoenix at the end of August 2015 to become Chairman of the Royal Bank of Scotland.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

Clive Bannister joined the Group in February 2011 as Group Chief Executive Officer. Prior to this, he was Group Managing Director of Insurance and Asset Management at HSBC Holdings plc. He joined HSBC in 1994 and held various leadership roles in planning and strategy in the Investment Bank (USA) and was Group General Manager and CEO of HSBC Group Private Banking. He started his career at First National Bank of Boston and prior to working at HSBC was a partner in Booz Allen Hamilton in the Financial Services Practice providing strategic support to financial institutions including leading insurance companies, banks and investment banks. Mr Bannister is also Chairman of the Museum of London. Mr Bannister was appointed to the Board of Directors of the Company on 28 March 2011.

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

James McConville was appointed to the Board of Directors of the Company as Group Finance Director on 28 June 2012. During 2011 and 2012, Mr McConville was a non-executive director of the life businesses of Aegon UK. Between April 2010 and December 2011, he was Chief Financial Officer of Northern Rock plc. Prior to that, between 1988 and 2010, he worked for Lloyds Banking Group plc (formerly Lloyds TSB Group plc) in a number of senior finance and strategy related roles, latterly as Finance Director of Scottish Widows Group plc and Director of Finance for the Insurance and Investments Division. In 2014, Mr McConville joined the board of Tesco Personal Finance Plc. Mr McConville qualified as a Chartered Accountant whilst at Coopers and Lybrand.

RENÉ-PIERRE AZRIA
NON-EXECUTIVE DIRECTOR

René-Pierre Azria is a senior partner of Lion Tree Advisors LLC, a US private advisory firm specialising in strategic financial analysis and mergers and acquisitions. Previously, Mr Azria was the founder and Chief Executive Officer of Tegris LLC. Prior to this he was a worldwide partner with Rothschild & Co. Prior to joining Rothschild in 1996, Mr Azria served as Managing Director of Blackstone Indosuez and president of Financiére Indosuez Inc. in New York. Mr Azria serves as a director of two privately-held book publishers in France and the US. Mr Azria was appointed to the Board of Directors of the Company on 2 September 2009. He is a member of the Company's Board Risk Committee.

ALASTAIR BARBOUR
NON-EXECUTIVE DIRECTOR

Alastair Barbour has had over 30 years' audit experience with KPMG where he worked across a full spectrum of financial services clients from large general insurers and reinsurers to the life assurance and investment management sector, working on a range of operational and strategic issues. Mr Barbour is the former Head of Financial Services, Scotland for KPMG. He retired from KPMG in 2011 to build a non-executive career. He is a director and the Audit Committee Chairman of RSA Insurance Group plc, Standard Life European Private Equity Trust plc and Liontrust Asset Management plc (all London Stock Exchange listed companies). He is also a director and Audit Committee Chair of CATCo Reinsurance Opportunities Fund Ltd, a Bermuda-based investment company listed on the London Stock Exchange and of The Bank of N.T. Butterfield & Son Limited, a company listed in Bermuda. Mr Barbour was appointed to the Board of Directors of the Company on 1 October 2013 and is Chairman of the Board Audit Committee and a member of the Board Risk Committee.

TOM CROSS BROWN
NON-EXECUTIVE DIRECTOR

Tom Cross Brown was Global Chief Executive of ABN AMRO Asset Management (which managed €160 billion of assets, with offices in 30 countries around the world) from 2000 to 2003, as well as Chairman of ABN AMRO Asset Management in the UK from 1997 to 2003. Prior to this, he spent 21 years with Lazard Brothers in London, latterly as Chief Executive Officer of Lazard Brothers Asset Management. Mr Cross Brown is Non-Executive Chairman of Just Retirement Group plc and is a Non-Executive Director of Artemis Alpha Trust plc, as well as of other private companies and charities. He was appointed to the Board of Directors of the Company on 24 September 2009. He is a member of the Board Nomination and Board Risk Committees.

KORY SORENSON
NON-EXECUTIVE DIRECTOR

Kory Sorenson is currently a non-executive director of SCOR SE, the global reinsurer listed on the Euronext Paris stock exchange, its US subsidiaries: SCOR Reinsurance Company (US) and SCOR Global Life Americas Reinsurance Company, and UNIQA Insurance Group AG, a leading insurance group in Austria and Central and Eastern Europe listed on the Vienna Stock Exchange. Ms Sorenson has over 20 years' financial services experience, most of which has been focused on insurance and banking. She was Managing Director, Head of Insurance Capital Markets of Barclays Capital from 2005 to 2010 and also held senior positions in the capital markets or financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley. Ms Sorenson is also a director of the Institut Pasteur, a non-profit, private foundation created in 1887 by Louis Pasteur, focused on biomedical research, public health and teaching. Ms Sorenson was appointed to the Board of Directors of the Company on 1 July 2014 and is a member of the Board Remuneration and Board Audit Committees.

ISABEL HUDSON
NON-EXECUTIVE DIRECTOR

Isabel Hudson is a former Executive Director of Prudential Assurance Company Limited and a former Non-Executive Director of QBE Insurance. She was also Chief Financial Officer at Eureko BV and a Non-Executive at The Pensions Regulator. Ms Hudson is Non-Executive Chair of the National House Building Council. In addition during 2014, Ms Hudson was appointed to the Boards of Standard Life PLC and BT Group plc. Ms Hudson is an ambassador to Scope, a UK charity, and has 33 years' experience in the insurance industry in the UK and mainland Europe. She was appointed to the Board of Directors of the Company on 18 February 2010. She is a member of the Board Audit and Board Remuneration Committees.

DAVID WOODS
NON-EXECUTIVE DIRECTOR

David Woods is a Fellow of the Institute of Actuaries, Non-Executive Chairman of Standard Life UK Smaller Companies Trust plc and a Non-Executive Director of Murray Income Trust plc and Barbon Insurance Group. He is also Chairman of the pension fund trustee companies responsible for the governance of all the UK pension schemes in the Steria Group and is Director of Santander (UK) Group Pension Trustees Ltd. He was appointed to the Board of Directors of the Company on 18 February 2010 and is Chairman of the Board Risk Committee and a member of the Board Audit Committee.

IAN CORMACK
SENIOR INDEPENDENT DIRECTOR

Ian Cormack was appointed to the Board of Directors of the Company on 2 September 2009 and was appointed Senior Independent Director on 1 October 2013. Ian Cormack is Non-Executive Chairman of Maven Income & Growth VCT 4 plc and is a Senior Independent Director of Partnership Assurance Group plc, Bloomsbury Publishing Plc and Xchanging plc. Mr Cormack was Chief Executive Officer of AIG, Inc. in Europe from 2000 to 2002 and prior to that he spent 32 years at Citibank where he was Chairman of Citibank International plc and co-head of the Global Financial Institutions Client Group at Citigroup. Mr Cormack is Chairman of the Board Remuneration Committee and a member of the Board Nomination Committee.

OUR EXECUTIVE MANAGEMENT TEAM

EXECUTIVE MANAGEMENT OF THE GROUP IS LED BY THE GROUP CHIEF EXECUTIVE OFFICER, CLIVE BANNISTER, WHO IS SUPPORTED BY THE EXECUTIVE COMMITTEE ('EXCO').

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

- Leads the development of the Group's strategy for agreement by the Board
- Leads and directs the Group's businesses in delivery of the Group strategy and business plan
- Leads the Group to safeguard returns for policyholders and grow shareholder value
- Embeds a risk-conscious Group culture which recognises policyholder obligations in terms of service and security
- Manages the Group's key external stakeholders.

FIONA CLUTTERBUCK
HEAD OF STRATEGY, CORPORATE DEVELOPMENT AND COMMUNICATIONS

- Supports the Group Chief Executive Officer in the formulation of the strategy and the business planning for the Group
- Leads implementation of the Group's strategy as regards any potential acquisitions or disposals
- Leads external Group communications in liaison with the Group Finance Director and Head of Investor Relations.

STEVE FAWCETT
GROUP HUMAN RESOURCES DIRECTOR

- Leads the implementation of the Group's employee strategy in order to recruit, retain, motivate and develop high quality employees

- Provides guidance and support on all human resources ('HR') matters to the Group Chief Executive Officer, ExCo, Group Board and Remuneration Committee
- Delivers HR services to the Group.

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

- Leads and delivers the Group's financial business plan in line with strategy
- Leads and delivers the Group's debt strategy and other treasury matters
- Ensures that the Group's finances and capital are managed and controlled
- Ensures the Group has effective processes in place to enable all reporting obligations to be met
- Supports the Group Chief Executive Officer in managing the Group's key external stakeholders and investor relations
- Maximises shareholder value through clear, rigorous assessment of business opportunities.

ANDY MOSS
CHIEF EXECUTIVE OFFICER, PHOENIX LIFE

- Leads development and delivery of the Phoenix Life business strategy, including the continued integration of life businesses
- Leads the Phoenix Life business to optimise outcomes for customers in terms of both value and security
- Ensures Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.

WAYNE SNOW
CHIEF RISK OFFICER

- Leads the Group's risk management function, embracing changes in best practice and regulation including Solvency II
- Oversees and manages the Group's relationship with the FCA and PRA
- Supports the Group Board Risk Committee in the oversight of the Group's risk framework, in line with risk strategy and appetite.

SIMON TRUE
GROUP CHIEF ACTUARY

- Ensures capital is managed efficiently across the Group
- Manages the Group's solvency position
- Leads the development of the Group's investment strategy
- Identifies and delivers opportunities to enhance shareholder value across the Group in liaison with the Group Finance Director.

QUENTIN ZENTNER
GENERAL COUNSEL

- Leads provision of legal advice to the Group Board, other Phoenix Group Boards, ExCo and senior management
- Oversees and co-ordinates maintenance of, and adherence to appropriate corporate governance procedures across the Group
- Designs and implements a framework to manage the legal risk within the Group, including compliance by Group companies and staff with relevant legal obligations.

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

THE GROUP'S BOARD STANDS WHOLEHEARTEDLY BEHIND THE STATEMENT THAT STRONG AND EFFECTIVE GOVERNANCE IS CRUCIAL TO THE GROUP'S AIM OF DELIVERING VALUE TO POLICYHOLDERS AND SHAREHOLDERS."

BOARD OF DIRECTORS

When I became Chairman of the Board of Phoenix Group Holdings in October 2012, a theme of recent Board evaluation reports was that the Board, with 14 Directors, was too large. The size was mainly due to the presence of several non-independent directors representing significant shareholders, and the consequent need to appoint a relatively large number of independent directors to provide balance to the Board and comply with governance code guidelines. At that point, only half the Board (seven directors) were independent and there was only one female director.

I am pleased to say that the Board now has a higher proportion of both independent and female directors and, with ten directors, is now of a more effective size. The recent Board evaluation review (November 2014), externally facilitated by Egon Zehnder, stated that "the reduction in director numbers has resulted in better quality debates, each director now being able to contribute fully".

The appointment of Kory Sorenson to the Board in July 2014 addressed two recommendations from the Board Evaluation review undertaken towards the end of 2013, to ensure that the Board's M&A/capital markets experience was maintained at a strong level and to add a further female director to the Board. The other changes to the Board in 2014 were the resignations of Manjit Dale at the AGM on 30 April 2014 (as reported in our 2013 Annual Report) and David Barnes on 22 October 2014 (as referred to in my introduction to this 2014 Annual Report).

The Board now has two female directors out of a Board of ten, and our intention remains to appoint a further female director in 2015, subject to the overriding factor of appointing the right individuals to the Board. In this regard, and following a recommendation arising from the Board evaluation review undertaken in November 2014, the Nomination Committee will be undertaking a Board skills audit in the first half of 2015 to re-assess the ideal blend of skills and knowledge on the Board, linked to the Group's strategy.

The resignations from the Board of shareholder representative directors over the last two years have occurred as their connected shareholdings have reduced significantly, and there has been a material shift in our shareholder base away from legacy shareholders towards long-only investors.

BOARD MEMBERSHIP

DECEMBER 2011 TO DECEMBER 2014

UK CORPORATE GOVERNANCE CODE

I am pleased to report that, for the third year running, we were fully compliant in 2014 with the provisions of the UK Corporate Governance Code. The new (September 2014) provisions of the UK Corporate Governance Code apply to Phoenix Group Holdings from the financial year commencing 1 January 2015. We are
well-placed to comply with the new provisions and, as required, will report against them in our 2015 Annual Report.

The following report shows how the Company has in 2014 achieved compliance with the provisions of the UK Corporate Governance Code and provides further details of the work undertaken by our Board and its committees.

GOVERNANCE CODE

2010

COMBINED CODE COMPLIANT IN ALL BUT TWO MATTERS

2011

UK CORPORATE GOVERNANCE CODE COMPLIANT IN ALL BUT ONE MATTER

2012

UK CORPORATE GOVERNANCE CODE COMPLIANT IN ALL MATTERS

2013

UK CORPORATE GOVERNANCE CODE COMPLIANT IN ALL MATTERS

2014

UK CORPORATE GOVERNANCE CODE COMPLIANT IN ALL MATTERS

SHAREHOLDER MEETINGS

Phoenix Group Holdings achieved a premium listing on the London Stock Exchange in July 2010. The results of our shareholder meetings have been as follows:

- 2010 AGM (first AGM) – all 22 resolutions passed by a majority of at least 87% of votes cast
- 2011 AGM – all 24 resolutions passed by a majority of at least 96% of votes cast
- 2012 AGM – all 21 resolutions passed by a majority of at least 97% of votes cast
- 2013 EGM – both resolutions passed by a majority of at least 96% of votes cast
- 2013 AGM – all 20 resolutions passed by a majority of at least 96% of votes cast
- 2014 AGM – all 19 resolutions passed by a majority of at least 80% of votes cast.

The following two resolutions at our 2014 AGM were passed by less than 90% of shares voted:

- Approval of the Remuneration Policy – 84.70%
- Approval of the Directors' remuneration report – 80.97%

We were disappointed that a significant minority of shareholders voted against these two resolutions. We have listened to shareholders' concerns and believe that we have responded appropriately to those concerns including the establishment of a minimum two-year share retention period following a three-year vesting period for executive long-term share plans, such that there will, in future, be a minimum five-year combined vesting/holding period. Further details of this and other aspects of our remuneration policy are contained in the Remuneration section on pages 60 to 82.

We have in 2014 enhanced our engagement with investors on governance matters and intend to continue this process. In this regard, I was pleased in November 2014 to host an 'investor governance meeting' for investors and proxy advisers to provide the opportunity for further engagement on our approach to governance, particularly in the context of market developments and expectations.

As previously reported and mentioned in my introduction to this 2014 Annual Report, I shall be leaving Phoenix at the end of August 2015. I am pleased to be leaving the Group with such strong corporate governance.

INTRODUCTION

Phoenix Group Holdings is a member of the FTSE 250, having achieved a Premium Listing on the London Stock Exchange in July 2010. The Board is committed to high standards of corporate governance and supports the UK Corporate Governance Code ('the Code') which sets standards of good practice for UK listed companies. It is the Board's view that the Company has been fully compliant during 2014 with the provisions set down in the Code.

THE BOARD

The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Finance Director and seven other Non-Executive Directors, six of whom are independent. Biographical details of all Directors are provided on pages 60 to 82. The Board considers that the following Directors are independent: Alastair Barbour, Ian Cormack, Tom Cross Brown, Isabel Hudson, Kory Sorenson and David Woods. The Board has considered the criteria proposed by the Code in assessing the independence of the Directors. Tom Cross Brown is the non-executive Chairman of Just Retirement Group plc. The Group has an arrangement with Just Retirement whereby Phoenix customers may be referred to Just Retirement to enable them to explore enhanced annuities should they wish to do so. The decisions regarding this arrangement are not made by the Board of Phoenix Group Holdings and the relationship is not considered to impact the independent status of Tom Cross Brown. Isabel Hudson is a non-executive director of Standard Life PLC which has investment management arrangements with the Phoenix Life subsidiary companies. The decisions regarding these arrangements are not made by the Board of Phoenix Group Holdings and the relationship is not considered to impact the independent status of Isabel Hudson.

The remuneration of the Directors is shown in the Directors' remuneration report on pages 48 to 49. The terms and conditions of appointment of Non-Executive Directors are on the Group's website. In accordance with the provisions of the Articles and the Code, all Directors will submit themselves for election or re-election at the Company's AGM on 23 April 2015.

All the Directors of the Company are PRA and FCA Approved Persons in respect of the Company's regulated subsidiaries.

The Board is responsible to the shareholders for the overall governance and performance of the Group. Overall, the Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board has a schedule of matters reserved for its consideration and approval supported by a set of operating principles. These matters include:

– Group strategy and business plans
– Major acquisitions, investments and capital expenditure
– Financial reporting and controls
– Dividend policy
– Capital structure
– The constitution of Board committees
– Appointments to the Board and Board committees
– Senior executive appointments
– Key Group policies.

The schedule of matters reserved for the Board is available from the Group Company Secretary. Matters which are not reserved for the Board and also its committees under their terms of reference (which are available on the Group website), or for shareholders in general meetings, are delegated to the executive management under a schedule of delegated authorities approved by the Board.

The head office of the Company is in Jersey and, as such, the Board and its committees hold their meetings in Jersey.

THE CHAIRMAN, GROUP CHIEF EXECUTIVE OFFICER AND SENIOR INDEPENDENT DIRECTOR

Howard Davies is Chairman of the Board of Directors of the Company. As previously reported, he will be leaving Phoenix at the end of August 2015 and a process is being undertaken for the recruitment of his successor. There is a division of responsibility, approved by the Board, between the Chairman, who is responsible for the leadership and effective operation of the Board and the Group Chief Executive Officer, Clive Bannister, who is responsible to the Board for the overall management and operation of the Group. The Chairman's other significant commitments are set out in his biographical details on page 48.

The Senior Independent Director, appointed by the Board, is Ian Cormack. His role is to be available to shareholders whose concerns are not resolved through the normal channels or when such channels are inappropriate. He is also responsible for leading the annual appraisal of the Chairman's performance by the Non-Executive Directors, which took place in November 2014.

BOARD EFFECTIVENESS

In accordance with the Code, an evaluation of the performance of the Board and that of its committees and individual directors was undertaken in the latter part of 2014 and was externally facilitated by Egon Zehnder who have no other connection with the Company. The process involved completion by directors of a questionnaire covering various aspects of Board, committee and director effectiveness followed by individual meetings between Egon Zehnder and each director, concluding in a Board report which was discussed by the Board in November 2014. The following areas were covered:

– Board structure and composition including diversity
– Board dynamics and relationship
– Board processes
– Board committees
– People and people processes
– Company strategy and performance
– Individual director performance which will be used in revising the training programme for directors.

An action list, with senior executive accountability, has been established to address the recommendations from the evaluation, including the recommended Board skills audit as referred to in the Chairman's introduction to this report.

The output from the Board and individual director reviews informed the review of the Board composition undertaken by the Board Nomination Committee in January 2015, leading to the Board's recommendations to shareholders regarding re-election of directors at the 2015 Annual General Meeting ('AGM').

All Directors receive a tailored induction on joining the Board in accordance with a process approved by the Board. To ensure that the Directors maintain up-to-date skills and knowledge of the Company, all directors receive regular presentations on different aspects of the Company's business and on financial, legal and regulatory issues.

OPERATION OF THE BOARD

The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and additional Board meetings of the Company and to devote appropriate preparation time ahead of each meeting. The Board met ten times during 2014 (including additional meetings convened for special purposes) and is scheduled to meet seven times in 2015 including a two day strategy-setting meeting. Additional meetings will be held as required, and the Non-Executive Directors will hold meetings with the Chairman, without the Executive Directors being present, as they did on several occasions in 2014.

Attendance by each of the Directors at Board meetings and at committee meetings for committees of which they were a member during 2014 is detailed below:

	Board Meetings		Nomination Committee		Audit Committee		Remuneration Committee		Risk Committee		Investment Committee	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Chairman												
Howard Davies	10	10	5	5								
Executive Directors												
Clive Bannister (CEO)	10	10										
Jim McConville (FD)	10	10										
Non-Executive Directors												
René Pierre Azria	10	10							7	7	2	2
Alastair Barbour	10	10			7	7			3	3		
David Barnes[1]	9	8			6	6	6	5				
Ian Cormack	10	9	5	5			7	7				
Tom Cross Brown	10	10	5	5					7	7	2	2
Manjit Dale[2]	5	1									2	0
Isabel Hudson	10	9			7	7	7	7	4	4		
Kory Sorenson[3]	4	4			3	2	4	3				
David Woods	10	9			3	3			7	7		

1 David Barnes resigned from the Board on 22 October 2014.

2 Manjit Dale resigned from the Board on 30 April 2014.

3 Kory Sorenson was appointed to the Board on 1 July 2014.

BOARD COMMITTEES

The Board has delegated specific responsibilities to four standing committees of the Board. The terms of reference of the committees can be found on the Company's website.

AUDIT COMMITTEE

ALASTAIR BARBOUR
CHAIRMAN

OTHER MEMBERS
ISABEL HUDSON
KORY SORENSON
DAVID WOODS

The composition of the Audit Committee is in accordance with the requirements of the Code that the Audit Committee should consist of at least three independent Non-Executive Directors of whom at least one has recent and relevant financial experience. Both Alastair Barbour and Isabel Hudson have that experience. The Audit Committee met seven times during 2014. Its meetings are attended by the Chairman of the Risk Committee (who is also a member of the Audit Committee), the Group Finance Director, the Deputy Group Finance Director, the Group Head of Internal Audit, the external auditors and usually also by the Group Chairman and the Group Chief Executive Officer. The Audit Committee holds private meetings at least annually with each of the Group Finance Director, the Group Head of Internal Audit and the external auditors.

AUDIT COMMITTEE'S ROLE

- Receiving and reviewing the Annual Report and Accounts and other related financial disclosures, although the ultimate responsibility for these matters remain with the Board
- Monitoring the overall integrity of the financial reporting by the Company and its subsidiaries and the effectiveness of the Group's internal controls
- Provision of advice to the Board to enable the Board to report on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy
- Responsible for making recommendations to the Board on the appointment of the external auditors and their terms of engagement and for reviewing the performance, objectivity and independence of the external auditors. The terms of reference of the Audit Committee state that it shall meet the external auditor at least once a year without management being present
- Responsible for reviewing the effectiveness of the internal audit function
- Oversight of activities of subsidiary audit committees through receipt and review of minutes, discussions between the Chairmen of the Audit Committee and subsidiary audit committees, and the Audit Committee Chairman's attendance at the Phoenix Life Audit Committee on an occasional basis, as well as his receipt of all papers going to the Phoenix Life Audit Committee.

PRINCIPAL ACTIVITIES OF THE AUDIT COMMITTEE DURING 2014

EXTERNAL REPORTING AND CONTROLS

- Reviewed the Company's 2013 Annual Report and Accounts, 2014 Interim Financial Statements and 2014 Interim Management Statements, recommending their approval to the Board, as well as related disclosures and the financial reporting process, supported by reports from management and the external auditors
- Considered and addressed a number of significant matters in relation to the IFRS and MCEV financial statements for 2013 (annual), 2014 (interim) and 2014 (annual) as summarised in the table on the next page. These matters were considered by the Audit Committee to be areas subject to the most significant levels of judgement or estimation, and identified with regard to the significant risks assessed by the Group's external auditors as set out in their audit opinion on page 91

– Reviewed the financial forecasts prepared by management, supported by the sensitivity analysis on the key assumptions underpinning the forecasts, in support of the assumption that the Group will continue as a going concern and in support of dividend payments
– Reviewed the annual internal controls effectiveness report (and the half-year interim update) prior to its consideration by the Board and received reports regarding consequential actions
– Approved a change in the basis of preparation of the Group's consolidated financial statements from IFRS as endorsed by the European Union to IFRS as issued by the International Accounting Standards Board. Following the approved change in basis, certain provisions of the Dutch Civil Code were no longer applicable, including the requirement to appoint a Dutch registered audit firm. Subsequently, the Audit Committee approved a recommendation to the Board to change the Group's external auditor from Ernst & Young Accountants LLP (Netherlands) to Ernst & Young LLP (UK)
– Reviewed changes in the Group's accounting policies applicable to the preparation of the 2014 financial statements, including an assessment of the processes implemented by management to adopt the IFRS 10, 11 and 12 consolidation and disclosure standards and the subsequent implications on the Group financial statements
– The Audit Committee requested and reviewed a report from management setting out the framework for calculation of the Group's operating profit metric on the IFRS and MCEV bases. The operating profit metric represents a non-GAAP measure presented by management which is considered to provide a comparable measure of underlying performance of the Group's business as it excludes the impacts of short term economic volatility and other one-off items. The Audit Committee focused on ensuring a suitably robust framework was in place for the allocation of items to operating profit. The Audit Committee was satisfied in this regard and approved enhanced disclosures for inclusion in the 2014 annual financial statements with regard to the accounting policy applied in determining operating profit.

EXTERNAL AUDIT

– Reviewed the effectiveness, engagement and remuneration of the external auditors, recommending their re-appointment to the Board and thence to shareholders
– Reviewed and monitored the independence of the external auditors including their provision of non–audit services
– Approved a policy for engagement of the external auditors for non-audit work to support compliance with the Group Charter of Statutory Auditor Independence
– Reviewed benchmarking and supporting information for the basis and calculation of the statutory audit materiality used by the external auditors, which has been set as a percentage of shareholder equity
– Considered and agreed the timing for a tendering exercise for the external audit engagement in the light of emerging legislative developments – see 'Auditor's appointment' below.

INTERNAL AUDIT

– Reviewed the self-assessment of the internal audit function, undertaken in accordance with the Institute of Internal Auditors' International Standards, the conclusion being that the internal audit function remains effective in its role
– Approved the Group Internal Audit Charter and the Group Internal Audit Plan (including its link to the Risk Management Framework), receiving regular reports to monitor progress against the plan
– Reviewed the internal audit macro-opinion report on the adequacy of risk management and control in the Group
– Reviewed proposals for Internal Audit to transition from functional audits to more risk-based thematic audits and agreed that the Internal Audit programme in 2015 should be balanced between functional and thematic audits
– Considered, in conjunction with the Chairman of the Risk Committee and the Chief Risk Officer, the interplay in the internal controls assurance process, between line 1 (executive management), line 2 (Risk Function) and line 3 (Internal Audit)
– Approved that Independent Audit Limited would undertake the external quality assessment of the Internal Audit function in the fourth quarter of 2014, reporting on the outcome in the first quarter of 2015.

AUDIT COMMITTEE'S PERFORMANCE

– Reviewed the Audit Committee's performance, constitution and terms of reference, noting that all its duties had been addressed in accordance with its terms of reference, and that the Board would undertake its own review of the performance of the Board committees.

GENERAL

– Reviewed arrangements for whistleblowing should an employee wish to raise concerns, in confidence, about any possible improprieties
– Approved, on recommendation of the Remuneration Committee, changes to the Group Tax Policy to reflect current remuneration practice.

SIGNIFICANT MATTERS CONSIDERED BY THE AUDIT COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS

Significant matters in relation to the 2014 IFRS financial statements and MCEV supplementary information	How these issues were addressed
REVIEW OF THE ACTUARIAL VALUATION PROCESS, TO INCLUDE THE SETTING OF ACTUARIAL ASSUMPTIONS AND METHODOLOGIES, AND THE ROBUSTNESS OF ACTUARIAL DATA	– Management presented papers to the Phoenix Life Audit Committee detailing recommendations for the actuarial assumptions and methodologies to be used for the interim and year-end reporting periods with justification and benchmarking as appropriate. These assumptions and methodologies were debated and challenged by the Phoenix Life Audit Committee, focusing on longevity and persistency in relation to demographics and on credit in relation to economics, prior to their approval. – The Phoenix Life Audit Committee also considered a paper prepared by management detailing the suite of key controls that are used to validate data that is utilised within the actuarial liability valuation process. – A summary of these papers was presented for oversight review by the Audit Committee, and the Phoenix Life Audit Committee's conclusions were reported to the Audit Committee through minutes of its meeting and a discussion between the Chairmen of the two committees. The Audit Committee discussed, and questioned management on, the content of the summary papers and the Phoenix Life Audit Committee's conclusions. – The Audit Committee received and considered detailed written and verbal reporting from the external auditors setting out their observations and conclusions in respect of the assumptions,

	methodologies and actuarial models. – Pension assumptions for use in the IAS 19 Employee Benefits valuations were reviewed and approved by the Audit Committee prior to the finalisation of the valuation reports.
IMPLEMENTATION OF A NEW ACTUARIAL REPORTING SYSTEM IN 2014	– Management presented reports to the Phoenix Life Audit Committee with regard to the implementation of the new actuarial modelling and reporting system for use in the actuarial liability calculations on an IFRS and MCEV basis from the 2014 interim results onwards. This included an assessment of the results of a parallel run of the 2013 valuation process, the operational readiness of the new system and the financial impacts of its implementation. – The Audit Committee were updated through reporting from the Phoenix Life Audit Committee by receipt of the minutes of that committee and independent reports from the external auditors on their audit of the use of the new system covering controls over input, reconciliation of early parallel runs and assessment of the output.
TAX PROVISIONING AND THE RECOVERABILITY OF DEFERRED TAX ASSETS	– As part of the interim and year-end reporting process, the Audit Committee considered presentations from management that provided an update on taxation risks and exposures, provisioning levels and matters pertaining to the recoverability of deferred tax assets.
VALUATION OF COMPLEX AND ILLIQUID FINANCIAL ASSETS	– Management presented papers setting out the basis of valuation of financial assets, including changes in methodology and assumptions, for the interim and year-end reporting periods to the Phoenix Life Audit Committee. The assumptions, valuations and processes, particularly for financial assets determined by valuation techniques using significant non-observable inputs (Level 3), were debated and challenged by the Phoenix Life Audit Committee prior to being approved. – The valuation information was then presented for oversight review by the Audit Committee who considered and confirmed the appropriateness of the basis of valuation.
OPERATING PROFIT	– The Audit Committee reviewed the allocation of key items to operating profit to ensure the allocations were in line with the Group's operating profit framework and consistent with previous practice.
ASSESSMENT OF WHETHER THE ANNUAL REPORT AND ACCOUNTS ARE FAIR, BALANCED AND UNDERSTANDABLE	– The Audit Committee considered an analysis of the processes and conclusions in support of management's conclusions that the Annual Report and Accounts are fair, balanced and understandable. In particular, the Audit Committee sought assurance as to the review processes that operated over the production of the Annual Report and Accounts.
GOING CONCERN ANALYSIS	– A comprehensive going concern assessment was undertaken by the Audit Committee for the 2014 year end and 2014 interim reporting periods, based on an assessment by management of the Group's liquidity for the going concern review period together with forecasts and a stress and sensitivity analysis. The analysis also confirmed that all regulatory and working capital requirements would be met under the base case and adverse stress scenarios throughout the going concern review period.

ASSESSMENT OF THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

The effectiveness of the external audit process was assessed through the completion of an assessment questionnaire by the key divisions and Group functions within Phoenix Group. The respondents were asked to answer questions to collate feedback in respect of three areas of audit performance: evaluation of the audit team, quality of service, and the communication and interaction of the auditors with the client. The questions asked respondents to rate performance on a scale of one (poor) to four (excellent) and to provide comments. The effectiveness of the process was then reviewed by the Audit Committee supported by a presentation from the Group Finance Director.

The assessment process also informed the recommendation by the Audit Committee to the Board for the re-appointment of Ernst & Young Accountants LLP (Netherlands) as the Group's auditors which was approved by shareholders at the AGM on 30 April 2014.

AUDITOR'S APPOINTMENT

The current auditors, EY, were appointed in September 2009. However, EY have been auditors to significant parts of the Group for a longer period. The Audit Committee has decided to undertake an audit tender during the tenure of the current Group audit partner, Ed Jervis, which will result in the tender being undertaken between six and nine years after the current (September 2009) appointment commenced.

AUDITOR'S INDEPENDENCE

The Company has adopted a Charter of Statutory Auditor Independence, which requires the Company and the external auditors to take measures to safeguard the objectivity and independence of the external auditors. These measures include a prohibition regarding non-audit services in respect of specific areas, such as secondments to management positions, or those which could create a conflict or perceived conflict. It also includes details of the procedures for the rotation of the external engagement partner. The Charter can be found on the Company's website.

NOMINATION COMMITTEE

SIR HOWARD DAVIES
CHAIRMAN

OTHER MEMBERS
IAN CORMACK
TOM CROSS BROWN

The composition of the Nomination Committee is in accordance with the requirements of the Code that a majority of its members should be independent Non-Executive Directors. The Nomination Committee is responsible for considering the size, composition and balance of the Board; the retirement and appointment of Directors; succession planning for the Board and senior management; and making recommendations to the Board on these matters. The Nomination Committee met five times in 2014.

The standard process used by the Committee for Board appointments involves the use of an external search consultancy to source candidates external to the Group (and will in the case of executive appointments also consider internal candidates). Detailed assessments of short-listed candidates are undertaken by the search consultancy, followed by interviews with Nomination Committee members and other Directors and the sourcing of references before the Nomination Committee recommends the appointments to the Board. This process was used for the appointment of Kory Sorenson in 2014. The search consultancy used in 2014 for director appointments was The Zygos Partnership which has no other connection with the Company.

NOMINATION COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2014

- Delivered a recommendation to the Board in connection with the appointment of Kory Sorenson who was appointed to the Board in July 2014 following the receipt of regulatory approval
- Reviewed the balance of skills, diversity, experience, independence and knowledge on the Board, taking account of the Board Evaluation Report
- Reviewed the structure, size and composition of the Board, taking account of the recommendation from the Board Evaluation Report to reduce the size of the Board to around ten, which was achieved in 2014
- Reviewed the time spent by Directors in fulfilling their duties, noting that it was considered substantial in comparison with the FTSE 250 average
- Reviewed the succession plan for Executive and Non-Executive Directors and recommended its approval to the Board
- Reviewed, prior to their appointments, the proposed new Non-Executive Director appointment to the subsidiary Phoenix Life Board and the new Phoenix Life Chief Executive appointment.

The Board's policy on diversity was outlined by the statement of former Chairman, Ron Sandler, released on the Phoenix Group website in October 2011 in response to the Lord Davies review of 'Women on Boards', as follows: "As we already have a large Board of 14 Directors (including one female Director) and are unlikely to want to increase its size, it is difficult at this stage to commit to firm percentages regarding the number of women on our Board in 2013 and 2015. Nonetheless, we have set targets of two female Directors by 2013 and a further female Director by 2015. Our overriding aim remains the appointment of the most appropriate candidates to the Board."

The appointment of Kory Sorenson in 2014 has raised the proportion of female Directors on the Board to 20% and, subject to the overriding factor of appointing the right individuals to the Board, it remains the Board's intention to appoint a further female Director in 2015. Before appointing any further Directors, the Nomination Committee intends to undertake a skills audit to re-assess the ideal blend of skills and knowledge on the Board, aligned to the strategy, this being a recommendation of the Board performance evaluation undertaken in November 2014.

REMUNERATION COMMITTEE

IAN CORMACK
CHAIRMAN

OTHER MEMBERS
ISABEL HUDSON
KORY SORENSON

The composition of the Remuneration Committee accords with the requirements of the Code that the Remuneration Committee should consist of at least three independent Non-Executive Directors. The Remuneration Committee met seven times during 2014.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's remuneration and compensation plans, policies and practices and for determining, within agreed terms of reference, specific remuneration packages for the Executive Directors. These include pension rights and executive incentive schemes to encourage superior performance. Details of the remuneration structure and the Remuneration Committee's activities in 2014 are provided in the Directors' remuneration report on pages 60 to 82.

FIT Remuneration Consultants provided advice to the Remuneration Committee in 2014 and is independent of the Company.

RISK COMMITTEE

DAVID WOODS
CHAIRMAN

OTHER MEMBERS
RENÉ PIERRE AZRIA
ALASTAIR BARBOUR
TOM CROSS BROWN

The establishment of a Risk Committee is not a requirement of the Code. However, the Board believes such a committee is important to ensure the robust oversight of the management of risk within the Group. The composition of the Risk Committee, with a majority of independent Non-Executive Directors, is in accordance with the final recommendations of the report by Sir David Walker titled 'A review of corporate governance in UK banks and other financial industry entities'. The Risk Committee met seven times in 2014. Its meetings are attended by the Chairman of the Audit Committee (who is also a member of the Risk Committee), the Chief Risk Officer, the Group Head of Internal Audit and, on several occasions during the year, also by the Group Chairman and the Group Chief Executive Officer.

The Risk Committee advises the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall degree of risk aversion, the current financial situation of the Group and the Group's capacity to manage and control risks within the agreed strategy. It advises the Board on all high level risk matters. Details of the Risk Management Framework, for which the Risk Committee has oversight, are provided in the Risk Management section on pages 36 to 41.

RISK COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2014

- Recommended to the Board the Group's risk appetite
- Recommended to the Board the Group's overall risk management strategy
- Approved the Group Risk function's 2014 plan
- Considered any breaches of the Group's risk appetite
- Monitored compliance with the Group's principal risk policies, satisfying itself that action plans to address significant breaches of those policies were sufficient
- Reviewed the Group's risk profile, monitoring it against the risk categories of Market, Insurance, Credit, Financial Soundness, Customer and Operational with particular attention to risk appetite, risk trends, risk concentrations, provisions, experience against budget and key performance indicators for risk
- Provided oversight of, and challenge to, the design and execution of the Group's stress and scenario testing, including any changes of assumptions
- Undertook horizon scanning to consider emerging risks that could impact the Group.

INVESTMENT COMMITTEE (DISSOLVED JULY 2014)

The Investment Committee met twice in 2014 and was dissolved in July 2014 following the sale of Ignis, the oversight of which formed a large part of the Investment Committee's activity. There remains an active Investment Committee of the Phoenix Life Board. Group investment oversight is undertaken at the Group Board.

COMMUNICATION WITH SHAREHOLDERS

The Company places considerable importance on communication with shareholders and regularly engages with them on a wide range of issues.

The Company's Investor Relations department is dedicated to facilitating communication with investors and analysts and an active investor relations programme is maintained. The Company continued its communication and engagement with the investment community during 2014. At these meetings a wide range of relevant issues including strategy, performance, management and governance are discussed. The Chairman, Senior Independent Director and Executive Directors are available to meet investors and analysts when required. Should major shareholders wish to meet newly appointed Directors, or any of the Directors generally, they are welcome to do so.

In November 2014, the Chairman hosted the Company's first 'investor governance event', engaging with major shareholders and proxy advisers on governance issues. This is part of our increased interaction with shareholders on governance matters which involved several meetings between the Company's management and shareholders and proxy advisers in 2014.

The Directors consider it important to understand the views of the market. Board members regularly receive copies of the latest analyst reports on the Company and the sector, as well as market feedback to further develop their knowledge and understanding of external views about the Company. The Chairman and the Non-Executive Directors provide feedback to the Board on topics raised with them by major shareholders. In addition, investor days are conducted periodically. The Company also undertakes perception studies, when appropriate, designed to determine the investment community's view of the core business from both institutional fund managers and sell-side analysts.

The Company's AGM provides another opportunity to communicate with its shareholders. At the 2014 meeting, the Company complied with the Code provisions relating to voting and the separation of resolutions. Shareholders were invited to ask questions during the meeting. It is intended that the same processes will be followed at the 2015 AGM. In line with the Code, details of proxy voting by shareholders will be made available at the meeting and will be posted on the Company's website following the meeting.

The Company's Annual Report and Accounts, together with the Company's Interim Report, Interim Management Statements and other public announcements and presentations, are designed to present a fair, balanced and understandable view of the Group's activities and prospects. These are available on the Company's website at www.thephoenixgroup.com, along with a wide range of relevant information for private and institutional investors, including the Company's financial calendar.

FINANCIAL REPORTING AND GOING CONCERN

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the IFRS financial statements for the year ended 31 December 2014.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 45.

The financial position of the Group, its cash flows and liquidity position are described in the financial statements and notes.

The Board's going concern assessment is included within the Directors' report on page 85.

REVIEW OF SYSTEM OF INTERNAL CONTROLS

The Code requires Directors to review the effectiveness of the Company's risk management and internal control systems which includes financial, operational and compliance controls. The Board has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Group's systems of internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board's review of the period covered by this report, which was undertaken with the assistance of the Audit and Risk Committees, was completed on 17 March 2015. Where any significant weaknesses were identified, corrective actions have been taken, or are being taken and monitored.

The Board (and its subsidiary company boards) monitor internal controls on a continual basis, in particular through Audit and Risk Committees. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period covered by this report and up to the date of approval of the Annual Report and Accounts for 2014, in accordance with the 'Internal Control: Guidance to Directors' published by the Financial Reporting Council.

Additional assurance is provided by the internal audit function, which operates and reports independently of management. The internal audit function provides objective assurance on risk mitigation and control to the Audit Committee.

DIRECTORS' REMUNERATION REPORT

CHAIRMAN'S INTRODUCTION

DEAR SHAREHOLDER

On behalf of the Board, I am pleased to present our Directors' remuneration report for the year ended 31 December 2014. This report covers remuneration for all Executive Directors and Non-Executive Directors of the Company.

COMPANY PERFORMANCE

2014 was a year of significant change for Phoenix Group with a number of major corporate actions being completed. These are set out in more detail in the Group Chief Executive Officer's report at the beginning of this Annual Report and Accounts. Particularly relevant operational and financial highlights for the year included:

- Operating companies' cash generation of £567 million
- Incremental MCEV from management actions of £261 million, a significant proportion of our target of £300 million over the period 2014 – 2016
- The issue of a £300 million senior unsecured bond, re-establishing a relationship with the debt capital markets
- The divestment of Ignis to Standard Life Investments (Holdings) Limited which facilitated a comprehensive refinancing of the Group's bank debt into a single unsecured facility, lowering interest costs and gearing
- The accreditation, for the third successive year, that Phoenix has been formally recognised as one of 'Britain's Top Employers'. This reflects our commitment to employee development and engagement, evidenced by the employee engagement survey result of a 2% increase compared to 2013 to 78%, further strengthening the positive comparison against the Financial Services benchmark
- The improvement in speed of customer pay-outs and servicing complaints which increased the overall satisfaction rate to 4.65 on a 5 scale rating over a rolling 12-month period.

These factors represent a significant performance by the Company and its management team and, accordingly, the Remuneration Committee ('Committee') concluded that the indicative out-turn of the Annual Incentive Plan ('AIP') and Long-Term Incentive Plan ('LTIP') should be allowed to stand without the exercise of any discretionary adjustment (up or down).

The only adjustment to the targets as set at the start of the year was to remove the impact of the sale of Ignis on the financial targets. These adjustments, while technical in nature, were consistent with institutional shareholder guidelines and maintained the integrity of the original targets to ensure they did not become easier to achieve, and that no benefit was gained from the sale in determining the AIP and LTIP out-turn. No other changes to the targets have been made.

REMUNERATION POLICY FOR 2015

Reflecting on feedback over the course of the year from a number of our major shareholders and taking account of developments more generally in market practice during the year, the Committee concluded that:

- For 2015, neither Executive Director will receive a salary increase (this means that the Group Chief Executive Officer has not had any increase in salary since joining approximately four years ago).
- The Shareholding Guidelines of all Executive Directors should be increased to 200% of base salary.
- In respect of 2015 and subsequent LTIP awards, a two-year holding period should be introduced so that after the three-year performance period, LTIP awards would only be exercisable after a further two-year period.
- In future, it will disclose more detail regarding the Company's performance against the performance measures and targets for the AIP.

With these changes, the Committee believes the ongoing arrangements to be appropriate.

One of our core challenges is how best to select the comparable universe against which to compare our Executive Directors both for performance and for remuneration in a specialised industry. While we do look to FTSE 31-100 data when benchmarking, it should be understood that this is used as a cap rather than a target or aspiration. We recognise that Phoenix Group Holdings is not a FTSE 31-100 company but, given the focus on transactional activity to deliver benefits through management actions, in some respects it has comparable complexity to this market. Additionally, the FTSE 31-100 includes more insurance groups than the FTSE 250 which are felt to be broadly comparable, so some rough comparisons might be useful.

Our practical solution is to use data from both the FTSE 31-100 and FTSE 250 universes, aiming for a target remuneration point that is appropriately positioned between the two. While not perfect, and kept under constant review, this approach has enabled us to attract, motivate and retain the quality of experienced staff we believe the Company needs without paying more than we feel to be appropriate.

By way of information, the practical application of the policy explained in the preceding paragraph has been to set the total target package for each of the two Executive Directors at less than 90% of the FTSE 31-100 data set. While our Group Finance Director's salary increased last year due to a strong performance, neither executive will receive an increase in 2015 as their salaries are each considered to be at an appropriate level.

SHAREHOLDER APPROVAL

At the Annual General Meeting ('AGM') on 23 April 2015, shareholders will be invited to approve the 2014 Directors' remuneration report as set out in the following pages. For ease of reference, the main summary policy tables from the Directors' Remuneration Policy approved at the 2014 AGM are also set out as an Appendix to the Directors' remuneration report, although we are not seeking further approval from shareholders for our policy at the 2015 AGM.

The Committee continues to seek to reflect developments in practice as deemed appropriate for Phoenix Group, and I hope that we can continue to rely on the support of our shareholders for the resolution on the 2014 Directors' remuneration report which will be proposed at the 2015 AGM.

Yours sincerely

IAN CORMACK

REMUNERATION COMMITTEE CHAIRMAN
17 March 2015

INTRODUCTION

We have presented this Directors' remuneration report to reflect the UK's Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'UK regulations'). The Company complies with the reporting obligations within the UK regulations as a matter of good practice, although it is not strictly required to do so as a non-UK incorporated quoted company. The Directors' remuneration report also describes how the Board has complied with the provisions set out in the UK Corporate Governance Code relating to remuneration matters.

At our 2015 AGM we will be holding an advisory vote on the Directors' remuneration report.

The auditors have reported on certain parts of the Directors' remuneration report and stated whether, in their opinion, those parts of the Directors' remuneration report have been properly prepared in accordance with the Companies Act 2006. Those sections of the Directors' remuneration report which have been subject to audit are clearly indicated.

DIRECTORS' REMUNERATION POLICY

The Directors' Remuneration Policy ('Remuneration Policy') was approved by the

Company's shareholders at the Company's AGM on 30 April 2014 and has effect for all payments made to Directors from that date.

The Company's full Remuneration Policy is available within the Remuneration Committee section of the website at www.thephoenixgroup.com/about-us/corporate-governance.aspx. For information and ease of reference, the main summary policy tables from the Remuneration Policy are included in the Appendix to this Directors' remuneration report. The information in the Appendix is not subject to the advisory vote on the Directors' remuneration report at the 2015 AGM.

ANNUAL IMPLEMENTATION REPORT – UNAUDITED INFORMATION

IMPLEMENTATION OF REMUNERATION POLICY IN 2015

Element of Remuneration Policy	Detail of Implementation of Policy for 2015
BASE SALARY	Salaries in 2015 will remain unchanged from the 2014 levels of £700,000 for the Group Chief Executive Officer and £440,000 for the Group Finance Director.
BENEFITS	There are no proposed changes to the benefits offered to Executive Directors in 2015.
PENSION	No changes to the pension arrangements for Executive Directors are anticipated for 2015. Cash supplement payment in lieu of pension of 20% of base salary (reduced for the effect of employers' National Insurance contributions). Such cash supplements are not taken into account as base salary for the calculation of the Annual Incentive Plan, Long-Term Incentive Plan or other benefits.
ANNUAL INCENTIVE PLAN ('AIP')[1]	The AIP for 2015 will operate on a basis that is consistent with how the AIP operated in 2014. The AIP maximum potential and on-target levels remain unchanged at 150% of base salary and at 50% of maximum levels (75% of base salary) respectively. As in previous years, one-third of AIP outcomes for 2015 will be delivered as an award of deferred shares under the Deferred Bonus Share Scheme ('DBSS') which will vest after a further three-year period of deferral. The number of shares in DBSS awards is calculated using the average share price for the three dealing days before the grant of awards. The weightings between Corporate and Personal performance measures for AIP in 2015 are unchanged from 2014 and are as follows: – Corporate (financial and strategic (non-financial) performance indicators) – 70%. – Personal (individual objectives) – 30%.

1 Incentive Plan is subject to malus and/or clawback.

ANNUAL IMPLEMENTATION REPORT – UNAUDITED INFORMATION CONTINUED

IMPLEMENTATION OF REMUNERATION POLICY IN 2015 CONTINUED

Element of Remuneration Policy	Detail of Implementation of Policy for 2015
ANNUAL INCENTIVE PLAN ('AIP')[1] CONTINUED	The weightings of the financial and strategic measures remain unchanged from 2014 and are as follows:

Performance Metric	Weighting of Corporate Measure	% of total incentive potential
Corporate Measure:		
Operating companies' cash generation	25%	17.5%
Group MCEV	25%	17.5%
Expense management	15%	10.5%
Group MCEV operating earnings after tax	15%	10.5%
Customer satisfaction	10%	7%
Employee engagement	10%	7%
Personal:		
Individual Objectives		30%
TOTAL		100%

	In addition, and as previously stated in the Remuneration Policy, there are three potential levels at which the performance measures and targets and related outcomes from AIP in 2015 may be moderated (downwards or upwards) by the Remuneration Committee ('Committee') – more details are in the summary Remuneration Policy Table set out at the Appendix to the Directors' remuneration report.
LONG-TERM INCENTIVE PLAN ('LTIP')[1]	Award levels for Executive Directors for 2015 are unchanged at 200% of base salary. When awards are made, the number of shares within awards is calculated using the average share price for the three dealing days before the grant of awards (this represents a change from previous years where only the share price on the day of grant was used). For LTIP awards made in 2015, a holding period has been introduced so that any LTIP awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividend accrual for LTIP awards will continue until the end of the holding period. The performance measures for LTIP awards to be made in 2015 will be based on MCEV growth (40% of award), Cumulative cash generation (40% of award) and relative Total Shareholder Return ('TSR') (20% of award). Additionally, all awards are subject to a further underpin measure relating to debt and risk management within the Group, as detailed on page 71. These measures, the relative weightings between the measures and the application of a three-year performance period for each measure, are unchanged from 2014's LTIP awards and are considered to be the most appropriate measures to align the LTIP out-turn with shareholders' interests. The relative TSR measure is calculated against the constituents of the FTSE 250 (excluding Investment Trusts), with vesting commencing at median (25% of this part of the award) and with full vesting at upper quintile levels and is subject to an underpin regarding underlying financial performance. As in past years, the performance targets for MCEV growth and Cumulative cash generation will be set by the Committee shortly prior to when the LTIP Awards are made. The Company will disclose the performance targets for the MCEV growth and Cumulative cash generation measures for 2015's LTIP awards in next year's Directors' remuneration report.
ALL-EMPLOYEE SHARE PLANS	Executive Directors have the opportunity to participate in HMRC tax advantaged Sharesave and Share Incentive Plans ('SIP') on the same basis as all other UK employees.

1 Incentive Plan is subject to malus and/or clawback.

Element of Remuneration Policy	Detail of Implementation of Policy for 2015
SHAREHOLDING GUIDELINES	Guideline levels have been increased so that the 200% of base salary level which applied to the Group Chief Executive Officer in 2014 is now also extended to the Group Finance Director. Where any vested LTIP awards are subject to a holding period requirement, the vested LTIP award shares (discounted for anticipated tax liabilities) will count towards the level required under the Guidelines.
CHAIRMAN AND NON-EXECUTIVE DIRECTORS' FEES	Fee levels for the Chairman and Non-Executive Directors will be at the same levels as for 2014. The fees for the Non-Executive Directors remain unchanged from 2010 levels and the fee for the Chairman is unchanged from his appointment in October 2012. The fee levels for 2015 are £325,000 for the Chairman, £90,000 for the role of Non-Executive Director with additional fees of: (i) £5,000 payable for the role of Senior Independent Director; and/or (ii) £10,000 payable where an individual also chairs the Audit, Remuneration or Risk Committee; and/or (iii) £20,000 payable where a Non-Executive Director also serves on the board of a subsidiary company and/or (iv) £10,000 payable for service on the Solvency II Model Governance Committee. The fees of Non-Executive Directors who are not paid for serving on subsidiary company boards and who were appointed before 2014 remained at £100,000 in accordance with their agreements on joining the Board.

BALANCE OF TOTAL TARGET REMUNERATION FOR EXECUTIVE DIRECTORS

The balance of total target remuneration for the Executive Directors is illustrated in the Appendix to the Directors' remuneration report where the disclosure for 'Potential Rewards under Various Scenarios' from the Remuneration Policy is included for information. The scenarios shown remain the same as for 2014 due to the underlying remuneration arrangements and participation levels remaining substantially unchanged.

DISTRIBUTION STATEMENT

The UK regulations require each quoted company to provide a comparison between profits distributed by way of dividend and overall expenditure on pay. Please refer to the Annual Report and Accounts 2014 page 64.

PERFORMANCE GRAPH AND TABLE

The graph on page 64 of the Annual Report and Accounts 2014 shows the value to 31 December 2014, on a TSR basis, of £100 invested in Phoenix Group Holdings on 5 July 2010 (the date of the Company's Premium Listing) compared with the value of £100 invested in the FTSE 250 Index (excluding Investment Trusts).

The FTSE 250 Index (excluding Investment Trusts) is considered to be an appropriate comparator for this purpose as it is a broad equity index of which the Company is a constituent.

The UK regulations also require that a performance graph is supported by a table summarising aspects of the Group Chief Executive Officer's remuneration as shown below for the period since the Company's Premium Listing:

Group Chief Executive Officer Remuneration

		Single figure of total remuneration (£000)	Annual variable element award rates against maximum opportunity (AIP)	Long-term incentive vesting rates against maximum opportunity (LTIP)
2014	Clive Bannister	2,961	68%	57%[2]
2013	Clive Bannister	2,737[1]	69%	67%[3]
2012	Clive Bannister	1,583	69%	n/a[4]
2011	Clive Bannister	1,333	73%	n/a[4]
	Jonathan Moss[5,6]	704	n/a	n/a
2010	Jonathan Moss	2,307	88%	100%

1 Figures restated for 2013. See footnote 3 for detail.

2 Following the year-end, the Group Chief Executive Officer elected to waive voluntarily his entitlement to any vesting of the 2012 LTIP in excess of two-thirds of the shares which would otherwise have vested.

3 The long-term incentive vesting rate for 2013 is shown at 67%. The LTIP performance conditions were fully met, although the Group Chief Executive Officer decided to waive voluntarily any entitlement in excess of two-thirds of the shares which would otherwise have vested. The single figure of total remuneration for 2013 has been restated and now reflects the actual price of shares on the day the LTIP vested rather than the three month average share price to 31 December 2013 which was required to be used last year.

4 Long-term incentive vesting rates against maximum opportunity values are not applicable for 2011 and 2012 due to no awards vesting in those financial years.

5 Jonathan Moss left the role of Group Chief Executive Officer on 7 February 2011 and left the Group on 29 March 2011. Clive Bannister joined Phoenix Group on 7 February 2011 and was appointed to the Board as a Director on 28 March 2011.

6 Jonathan Moss' 2011 single figure of remuneration figure does not include compensation for loss of office.

PERCENTAGE CHANGE IN PAY OF THE GROUP CHIEF EXECUTIVE OFFICER 2013 TO 2014

In accordance with UK regulations, the table below provides a comparison of the percentage change in the prescribed pay elements of the Group Chief Executive Officer (salaries, taxable benefits, and annual incentive outcomes) between financial years 2013 and 2014 and the equivalent percentage changes in the average of all staff (representing all permanent staff during 2013 and 2014 on a matched basis).

Year-on-year % change	Salary (% change)	Taxable Benefits (% change)	Annual incentive (% change)	Total (% change)
Group Chief Executive Officer	0.00	(5.88)	(1.24)	(0.69)
Staff	4.00	1.30	2.30	3.45

This group was selected as being representative of the wider workforce and is equivalent to the group used for this comparison in last year's accounts. Also for consistency with last year, staff working for Ignis (which was sold during 2014) have again been excluded as pay arrangements at Ignis were separate from Group and Life. Overall, the data shows broadly unchanged levels of pay inflation for the Group Chief Executive Officer, whereas staff more generally received increases through a broadly equal split of salary increases and AIP outcomes. The median level of salary increase for staff was 2.5% and so is lower than the figure shown above which is based on averages.

VOTING OUTCOMES FROM THE 2014 AGM

The table below shows the votes cast to approve the Directors' Remuneration Policy and to approve the Directors' remuneration report for the year ended 31 December 2013 at the 2014 AGM held on 30 April 2014.

	For		Against		Abstain
	Number	% of votes cast	Number	% of votes cast	Number
To approve the Directors' Remuneration Policy	125,192,451	84.7	22,610,598	15.3	7,826,087
To approve the Directors' remuneration report for the year ended 31 December 2013	125,877,015	80.9	29,545,118	19.0	168,478

The Directors noted the percentage of shareholders voting against these resolutions and, having engaged with its shareholders, believe that the reasons for this include:

– the first salary rise for the Group Finance Director since his appointment in 2012;

– not disclosing AIP performance targets on a retrospective basis for 2013;

– the absence of a further holding period within the LTIP following the completion of the three-year performance period; and

– use of the FTSE 31-100 as a benchmarking reference point on the basis that these companies' larger market capitalisations provide an appropriate proxy for the complexity and scale of Phoenix Group.

The Company engaged with its shareholders on these issues both in advance of, and subsequent to, the AGM. No salary increases have been awarded to either of the Executive Directors in respect of the 2015 review and page 68 of this report includes additional disclosure regarding the 2014 AIP out-turn. Consistent with evolving best practice, 2015 LTIP awards will also be subject to a two-year holding period. As explained in the Committee Chairman's report on page 60, while the FTSE 31-100 is used as a reference point, it is seen as a cap subject to negative moderation rather than a figure to match.

IMPLEMENTATION REPORT – AUDITED INFORMATION

SINGLE FIGURE TABLE

	Salary/fees[1]		Benefits[2]		Annual Incentive[3]		Long-term incentives[4,7]		Pension[6]		Total	
£000	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013[8]
Clive Bannister	700	700	16	17	716	725	1,404[5]	1,164[8]	125	131	2,961	2,737
James McConville	440	400	35	98[8]	475	435	1,367	3	77	70	2,394	1,006

1 The Executive Directors are entitled to adjust their salary/benefit combination under flexible benefits arrangements and the figures shown are before individual elections.

2 Benefits for Clive Bannister comprise car allowance and private medical insurance totalling £16,275. Benefits for James McConville comprise car allowance and private medical insurance totalling

£16,020, together with reimbursement of travel and accommodation costs (plus associated tax costs) of £19,020 until 5 April 2014. The benefits figure for James McConville for 2013 has been adjusted from the number reported in 2013's single figure table to reflect the correct level of relocation assistance received (this addition has previously been disclosed in an announcement to the London Stock Exchange on 28 April 2014, subject to non-material adjustments in the figure shown above reflecting final data).

3 Annual incentive amounts are presented inclusive of any amounts which must be deferred into shares for three years (i.e. one-third of the AIP award). In 2014 and 2013, £238,700 and £241,667 respectively of Clive Bannister's incentive payment is deferred in shares for a period of three years and £158,290 and £145,000 of James McConville's incentive payment is similarly deferred. Details of the performance measures and targets applicable to the AIP for 2014 are set out below.

4 In accordance with the requirements of the UK regulations, the 2014 value for long-term incentives is an estimate of the vesting outcomes for LTIP awards granted in 2012 and which are due to vest on 2 April 2015 for Clive Bannister and 23 August 2015 for James McConville. These estimated vesting levels are at 85% respectively, reflecting outcomes against the MCEV growth and Cumulative cash generation performance measures to 31 December 2014, and an anticipated TSR outcome until 2 April 2015 which reflects only TSR performance to 31 December 2014. This estimated vesting outcome, including assumptions for dividends, is then applied to the average share price between 1 October 2014 and 31 December 2014 (769.93p) to produce the estimated long-term incentives figures shown for 2014 in the above table. These assumptions will be trued up for actual share prices, actual TSR performance and dividends on vesting in the report for 2015. Details of the performance measures and targets applicable to the 2012 LTIP are set out on page 69.

5 Following the year-end, the Group Chief Executive Officer elected to waive voluntarily his entitlement to any vesting of the 2012 LTIP in excess of two-thirds of the shares which would otherwise have vested.

6 Clive Bannister and James McConville are entitled to each receive a Company pension contribution of 20% of base salary, which may at their own choice, be paid to their Group Personal Pension ('GPP') or received in cash. Pension contributions paid as cash supplements are reduced for the effect of employers' National Insurance contributions.

7 No long-term incentive awards for the current Executive Directors vested during 2013 although the UK regulations required the inclusion within Clive Bannister's figures for 2013 of an estimate of the 2011 LTIP awards due to vest in 2014 in respect of a performance period ending on 31 December 2013. 2011's LTIP awards vested at 67%. The LTIP performance conditions were fully met, although the Group Chief Executive Officer decided to waive voluntarily any entitlement in excess of two-thirds of the shares which would otherwise have vested. The 2013 long-term incentives value in the above table reflects the value of the Company's shares on the date of vesting (12 April 2014: 644p per share) multiplied by the 180,815 shares vesting, whereas the equivalent figure within the published 2013 single figure table was an estimate which reflected the average share price between 1 October 2013 and 31 December 2013 (732.3p) and certain assumptions regarding the cumulative value of dividends on the numbers of shares vesting. For James McConville, the value of his 2013 long-term incentives is a value in respect of the intrinsic gain on a Sharesave option grant made in 2013 (£2,769).

8 Figure restated for 2013. See notes 2 and 4 above.

The aggregate remuneration of all Directors under salary, fees, benefits, cash supplements in lieu of pensions and annual incentive was £3.771 million (2013: £3.880 million; this 2013 figure has been restated to reflect (i) the adjustment to James McConville's benefits as referred to in footnote 2 to the single figure table above, and (ii) restated expenses for Non-Executive Directors referred to in the notes to the table of Non-Executive Directors' Fees).

AIP OUTCOMES FOR 2014

The Committee seeks to set suitable ranges for each measure in the context both of the Company's own internal budgets and of external projections (whether through management guidance or consensus forecasts). As an entirely closed life business, targets are significantly impacted by management actions and year on year growth is not an inherent objective. The ranges are considered appropriate in that context.

The table below shows the actual out-turn against the annual incentive maximum which follows the AIP terms without discretionary adjustment. For 2014 AIP, Corporate (financial and strategic) measures applied to 70% of incentive opportunity and Personal (individual objectives) measures applied to 30% of incentive opportunity.

	Corporate		Personal		Total	Maximum
Name	As a % of maximum corporate element	As a % of salary	As a % of maximum individual element	As a % of salary	As a % of salary	As a % of salary
Clive Bannister	76.00%	79.80%	50.00%	22.50%	102.30%	150%
James McConville	76.00%	79.80%	62.50%	28.13%	107.93%	150%

Against the specific Corporate metrics, out-turns were as follows:

Performance Metric	Threshold performance level for 2014 AIP[1]	Maximum performance level for 2014 AIP	Performance level attained for 2014 AIP	% of 70% of incentive potential based on Performance Metric	% achieved
Operating companies' cash generation	£534m	£647m	£567m	25%	7%
Group MCEV	£2,512m	£2,679m	£2,767m	25%	25%
Expense management	£278m	£248m	£253m	15%	13%
Group MCEV operating earnings after tax	£196m	£230m	£288m	15%	15%
Customer satisfaction	3 rating	5 rating	4.65 rating	10%	8%
Employee engagement	72 rating	80 rating	78 rating	10%	8%
Total					76%

1 For financial metrics, there is 0% vesting at threshold performance for the portion of AIP outcome subject to that metric. For strategic metrics, there is 2.5% vesting at threshold performance.

The Committee concluded that the Company's performance against the pre-set targets, was reflective of the Company's wider performance, and therefore, that no moderation (up or down) from the indicative out-turn was appropriate.

The above targets are those set for the 2014 year in accordance with the normal processes subject only to the Committee excluding the budgeted performance of Ignis for the period following its disposal and, on the basis that it was not practical to pro-rate expenses, the budgeted and actual expenses of Ignis were excluded for the full financial year. For the avoidance of doubt, participants did not benefit under the AIP from the sale proceeds of Ignis.

In line with market best practice, the Company has disclosed both the actual performance targets for the specific Corporate (financial and strategic) performance measures used for the 2014 AIP and the relevant levels of attainment for those targets. Specific performance measures and targets for the Personal (individual objectives) performance elements of the 2014 AIP are not disclosed as these performance measures and targets are regarded as commercially sensitive by the Committee and are likely to remain so although key achievements included the comprehensive refinancing of the bank debt, the divestment of Ignis and the successful appointment of the new Phoenix Life Chief Executive Officer together with very good financial performance, a more diversified investor base and a well-managed life company which has delivered a wide range of management actions.

In addition, whilst the performance measures for the AIP for 2015 have been disclosed (see Implementation of Remuneration Policy for 2015), the performance targets for these measures are regarded as commercially sensitive at the current time and accordingly are not disclosed. However, the Company currently intends to disclose the performance targets for the Corporate (financial and strategic) performance measures for 2015's AIP retrospectively in the next year's Directors' remuneration report on a similar basis to the disclosures made above in respect of

2014's AIP Corporate (financial and strategic) performance measures.

LTIP OUTCOMES FOR 2012 AWARDS

Performance metric and weighting	Target range	Performance achieved	Vesting outcome
MCEV growth[1] (40%)	Target range between MCEV growth in excess of the risk-free rate by 3% per annum and MCEV growth in excess of the risk-free rate by 6% per annum.	7.60%	100%
Cumulative cash generation[2] (40%)	Target range between Cumulative cash generation of £1.307bn and Cumulative cash generation of £1.807bn.	£1.708bn	85%
TSR[3] (20%)	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.	Not reached end of performance period.	n/a

As noted in the appropriate sections to the tables, the actual vesting level for the Group Chief Executive Officer will be less than indicated above as he voluntarily elected to waive any vesting in excess of two-thirds of the indicative level.

In addition to the above targets, the Committee confirmed that the underpin performance condition relating to management of debt and capital restructuring within the Group (as described more fully on page 71) had been achieved in the performance period.

1 The MCEV growth targets remain unchanged from when initially set except that the base year MCEV figure from which the MCEV growth targets are measured has been recalculated to remove the imputed MCEV from Ignis profits, replacing this with the actual sale proceeds (less refinancing costs). For more details see the summary of LTIP performance conditions on page 71.

2 Following the sale of Ignis, the Cumulative cash generation target has been reduced by the budgeted dividend expected in the period from Ignis between the completion date at 1 July 2014 and the LTIP closing date of 31 December 2014. The absolute level of stretch under the Cumulative cash generation targets remains unchanged and the proceeds from the sale of Ignis are excluded from the final calculation. Cumulative cash generation takes into account a certain level of interest costs and expenses.

3 The TSR performance condition measures performance until 2 April 2015 and is therefore not known. Based on performance to 31 December 2014 it was tracking at the 63.4 percentile giving an estimated vesting of 58.3% of the portion of the award subject to the TSR measure. Reported figures are based on this estimated amount.

NON-EXECUTIVE DIRECTORS' FEES

The emoluments of the Non-Executive Directors based on the current disclosure requirements were as follows:

Name	**Directors' salaries/fees 2014 £000**	Directors' salaries/fees 2013 £000	**Benefits[1] 2014 £000**	Benefits[2] 2013 £000	**Total 2014 £000**	Total[2] 2013 £000
Non-Executive Chairman						
Howard Davies	325	325	–	–	325	325
Non-Executive Directors						
Ian Ashken[3]	–	34	–	–	–	34
René-Pierre Azria	100	100	–	–	100	100
Alastair Barbour	122	30	8	–	130	30
David Barnes[4]	89	110	–	–	89	110
Charles Clarke[3]	–	34	–	–	–	34
Ian Cormack	125	121	–	–	125	121
Tom Cross Brown	120	120	–	–	120	120
Manjit Dale[5]	33	100	–	–	33	100
Isabel Hudson	100	100	–	–	100	100
Alastair Lyons[3]	–	94	–	3	–	97
Hugh Osmond[3]	–	67	–	–	–	67
Kory Sorenson[6]	45	–	–	–	45	–
David Woods	130	130	8	2	138	132
Total	1,189	1,365	16	5	1,205	1,370

1 The amounts within the benefits column reflect the fact that the reimbursement of expenses to Non-Executive Directors for travel and accommodation costs incurred in attending Phoenix Life Holdings Limited board and associated meetings represent a taxable benefit. This position has been clarified with HMRC and the amounts shown are for reimbursed travel and accommodation expenses (and the related tax liability which is settled by the Company).

2 The figures for 2013 in respect of Alastair Lyons and David Woods have been restated to reflect the position referred to in note 1 above, and includes reimbursed travel and accommodation costs (and related tax liabilities) in 2013 (Alastair Lyons: £3,000; David Woods: £2,000).

3 Ian Ashken, Charles Clarke, Alastair Lyons and Hugh Osmond retired from the Board in 2013.

4 David Barnes retired from the Board on 22 October 2014.

5 Manjit Dale retired from the Board on 30 April 2014.

6 Kory Sorenson joined the Board on 1 July 2014.

SHARE-BASED AWARDS

As at 31 December 2014, Directors' interests under long-term share-based arrangements were as follows:

LTIP

	Date of grant	Share price on grant	No. of Share options as at 1 Jan 2014	No. of Share options granted in 2014	No. of Dividend Shares acquired as at vesting[1]	No. of Share options exercised[2]	No. of Share options not vested	No of Share options as at 31 Dec 2014	Vesting date
Clive Bannister									
LTIP[3,4]	12 April 2011	657.5p	218,408	–	35,210	174,805	72,803	6,010	12 April 2014
LTIP[5]	2 April 2012	566.5p	253,493	–	–	–	–	253,493	2 April 2015
LTIP	15 November 2013	712p	196,629	–	–	–	–	196,629	15 November 2016

LTIP[6]	26 March 2014	741.5p	–	188,806	–	–	–	188,806	26 March 2017
			668,530	188,806	35,210	174,805	–	644,938	
James McConville									
LTIP	23 August 2012	485p	169,194	–	–	–	–	169,194	23 August 2015
LTIP	15 November 2013	712p	112,359	–	–	–	–	112,359	15 November 2016
LTIP[6]	26 March 2014	741.5p	–	118,678	–	–	–	118,678	26 March 2017
			281,553	118,678	–	–	–	400,231	

The options awarded under the LTIP are awarded as nil cost options.

1 In addition to the shares awarded under the LTIP, participants receive an additional number of shares (based on the number of LTIP awards which actually vest) to reflect the dividends paid during the vesting period (and which for awards made from 2015, will include dividends paid during any applicable holding period).

2 Gains of Directors from share options exercised under the LTIP in 2014 were £1,295,305 (2013: £nil). The share price on date of exercise (29 August 2014) was £7.41.

3 The 2011 LTIP award vested at 67%. The LTIP performance conditions were fully met (MCEV growth in excess of the risk-free rate by 6% per annum; Cumulative cash generation of £1.517bn or more) over the 3-year performance period to 31 December 2013, although the Group Chief Executive Officer decided to waive voluntarily any entitlement in excess of two-thirds of the shares which would otherwise have vested.

4 The shares outstanding at the end of the year related to dividend roll-up and were exercised on 7 January 2015.

5 Following the year-end, the Group Chief Executive Officer elected to waive voluntarily his entitlement to any vesting of the 2012 LTIP in excess of two-thirds of the shares which would otherwise have vested.

6 The face value of awards granted in 2014 represents the maximum vesting of awards (but before any credit for dividends) and is calculated using a share price of 741.5p being the closing middle market price on the award date, giving £1,399,996 for Clive Bannister and £879,997 for James McConville. The vesting percentage at threshold performance (2014 awards) is 25%.

The performance conditions for the 2012, 2013 and 2014 awards are set out below including adjustment for the sale of Ignis to ensure that the targets remained as stretching as before the sale:

Performance measure	2012 award (40% MCEV growth, 40% Cumulative cash generation and 20% TSR)	2013 award (40% MCEV growth, 40% Cumulative cash generation and 20% TSR)	2014 award (40% MCEV growth, 40% Cumulative cash generation and 20% TSR)
MCEV growth[1] 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over 3 financial years commencing with the year of award.	Target range between MCEV growth in excess of the risk-free rate by 3% per annum and MCEV growth in excess of the risk-free rate by 6% per annum.	Target range as for 2012, except the threshold is 4%. As the 2013 rights issue was known before the date of award, the base MCEV for 2013's award increased by £211m.	Target range as for 2013. For this award, an additional £50m was added to the base MCEV figure to increase the level of challenge.
Cumulative cash generation[2] 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over 3 financial years commencing with the year of award.	Target range of £1.307bn to £1.807bn (£1.330bn to £1.830bn before adjustment).	Target range of £1.277bn to £1.477bn (£1.329bn to £1.529bn before adjustment).	Target range of £1.348bn to £1.548bn (£1.416bn to £1.616bn before adjustment).
TSR[3] 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.	Target range as for 2012.	Target range as for 2012.

Underpin: Notwithstanding the MCEV growth, Cumulative cash generation and TSR performance targets, if the Committee determines that the Group's debt levels and associated interest costs have not remained within parameters acceptable to the Committee over the performance period, and that the Group has not made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital structuring (and for 2013 onwards, risk management), the level of awards vesting will either be reduced or lapse in full.

As noted in the section describing the Implementation of Remuneration Policy in 2015, LTIP awards to be made in 2015 will be subject to performance measures similar to those described in the table above, and the exact performance targets will be determined by the Committee shortly before the awards are made.

1 The MCEV growth targets included a 5x EBITDA element for the value of Ignis. Given the sale of Ignis during the performance period and that best practice is to exclude transactional benefits, the actual sale proceeds were substituted (less refinancing costs). This had a very modest impact on the base year MCEV figures used for the targets: 2012 (£12 million), 2013 (£3 million), 2014 (£26 million).

2 Following the sale of Ignis, the Cumulative cash generation targets have been reduced by the originally budgeted dividend expected in the period from Ignis since the completion date of 1 July 2014. The absolute level of stretch under the Cumulative cash generation targets remains unchanged and the proceeds from the sale of Ignis are also excluded from the final calculation. Target ranges for the Cumulative cash generation targets before adjustment for the Ignis disposal are also shown in the table above for comparison. Cumulative cash generation takes into account a certain level of interest costs and expenses.

3 For the 2012 awards the TSR performance period commenced on 2 April 2012. For the 2013 award (and future awards) the TSR performance period was aligned to the period of financial years applying to the two financial measures.

DBSS

	Date of grant	Share price on grant	No. of Share options as at	No. of Share options granted	No. of Share options exercised	No. of Share options not vested	No. of Share options as at	Vesting date

			1 Jan 2014	in 2014			31 Dec 2014	
Clive Bannister								
DBSS	2 April 2012	562.5p	41,452	–	–	–	41,452	2 April 2015
DBSS	27 March 2013	658.5p	36,748	–	–	–	36,748	27 March 2016
DBSS[1]	28 March 2014	652.0p	–	34,029	–	–	34,029	28 March 2017
			78,200	34,029			112,229	
James McConville								
DBSS	27 March 2013	658.5p	11,999	–	–	–	11,999	27 March 2016
DBSS[1]	28 March 2014	652.0p	–	20,417	–	–	20,417	28 March 2017
			11,999	20,417			32,416	

1 The face value of awards granted in 2014 is equivalent to 50% of the cash element of the 2013 AIP and is calculated using a share price of 710.17p, being the average closing market price on the 3 days preceding the award date, giving £241,664 for Clive Bannister and £144,995 for James McConville.

This is the arrangement pursuant to which one-third of the AIP for any year is deferred into the Company's shares. No performance conditions apply therefore other than generally being subject to continued employment. In addition to the shares awarded under the DBSS presented above, at the point of vesting participants receive an additional number of shares to reflect the dividends paid during the vesting period (or until transfer of shares for DBSS awards made before 2014).

Sharesave Options

	No. of Share options as at 1 Jan 2014	No. of Share options granted in 2014	No. of Share options exercised	No. of Shares options not vested	No. of share options as at 31 Dec 2014	Exercise price	Exercisable from	Date of expiry
Clive Bannister	1,617	–	1,617	–	–	£5.58[1]	1 Jun 2014[2]	30 Nov 2014
James McConville	1,607		–	–	1,607	£5.60	1 Jun 2016	30 Nov 2016

1 The 2010, 2011 and 2012 sharesave awards were increased during 2013 as a result of the equity raising on 21 February 2013 (see note 16 of the consolidated financial statements). The exercise price of these awards was also amended as a result of the equity raising with the price of the 2011 Sharesave adjusted to £5.576437.

2 These shares were exercised on 26 November 2014 and all shares retained. Share price on date of exercise was £7.975.

Gains of Directors from share options exercised under the Sharesave Scheme in 2014 were £3,878 (2013: £nil). Sharesave options are not subject to performance conditions. Sharesave options are granted with an option price that is a 15% discount to the three day average share price when invitations are made. This is permitted by HMRC regulations for such options. The Sharesave options granted to James McConville represents options granted for the then maximum monthly savings of £250 per calendar month for three years.

Aggregate gains of Directors from share options exercised under all share plans in 2014 was £1,299,183 (2013: £nil).

During the year ended 31 December 2014, the highest mid-market price of the Company's shares was 833p and the lowest mid-market price was 626p. At 31 December 2014, the Company's share price was 830p.

DIRECTORS' INTERESTS

The number of shares held by each director is shown below:

	As at 1 Jan 2014 or date of appointment if later	As at 31 Dec 2014 or retirement if earlier	Total share plan interests as at 31 Dec 2014 – LTIP	Total share plan interests as at 31 Dec 2014 – DBSS	Total share plan interests as at 31 Dec 2014 – Sharesave
Clive Bannister	–	176,422	644,938	112,229	–
James McConville	–	–	400,231	32,416	1,607
René-Pierre Azria	34,491	34,491	–	–	–
Alastair Barbour	–	3,000	–	–	–
David Barnes[1]	2,747	2,747	–	–	–
Ian Cormack	3,650	3,650	–	–	–
Tom Cross Brown	1,988	1,988	–	–	–
Manjit Dale[2]	–	–	–	–	–
Howard Davies	3,623	3,623	–	–	–
Isabel Hudson	3,880	3,880	–	–	–
Kory Sorenson	–	1,380	–	–	–
David Woods	3,500	3,500	–	–	–

1 David Barnes' share interests are shown as at his date of leaving on 22 October 2014.

2 Manjit Dale is a director of TDR Capital Nominees Limited and Jambright Limited and as such these companies were all considered as connected persons up to the date of his resignation on 30 April 2014. Total interests held by these entities amount to 13,923,409 as at this date.

As explained in the Remuneration Policy, the Executive Directors are subject to Shareholding Guidelines.

The extent to which Executive Directors have achieved the guideline requirements by 31 December 2014 (using the share price on acquisition/vesting) can be summarised as follows:

Position	Shareholding Guideline (% of salary)	Value of shares held for Shareholding Guidelines (% of salary)
Clive Bannister	200%	190%
James McConville	200%	0%

Note:
The Executive Directors are required to sign a declaration that they have not and will not at any time during their employment with the Phoenix Group, enter into any hedging contract in respect of their participation in the AIP, LTIP, Sharesave, SIP or any other incentive plan of the Company, or pledge awards in such plans as collateral, and additionally that they will neither enter into a hedging contract in respect of, nor pledge as collateral, any shares which are required to be held for the purposes of the Company's Shareholding Guidelines or any vested LTIP award shares subject to a LTIP holding period.

ADDITIONAL UNAUDITED INFORMATION

DIRECTORS' SERVICE CONTRACTS

The dates of contracts and letters of appointment and the respective notice periods for directors are as follows:

Executive Directors' contracts

Name	Date of appointment	Date of contract	Notice period from either party (months)
Clive Bannister	28 March 2011	7 February 2011	12
James McConville	28 June 2012	28 May 2012	12

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards as long as these are not deemed to interfere with the business of the Group. During 2014, Clive Bannister received £45,000 from Punter Southall Group and CHF60,000 from UniGestion in respect of two external directorships. James McConville received £37,908 from Tesco Personal Finance plc following his appointment to their Board with effect from 1 September 2014.

Non-Executive Directors' contracts

Name	Date of letter of appointment	Date of joining the Board	Appointment end date	Unexpired term (months)
René-Pierre Azria	2 September 2009	2 September 2009	23 April 2015	1
Alastair Barbour	11 September 2013	1 October 2013	1 October 2016	18
Ian Cormack	2 September 2009	2 September 2009	23 April 2015	1
Tom Cross Brown	24 September 2009	24 September 2009	23 April 2015	1
Howard Davies	19 October 2012	1 October 2012	1 October 2015	6
Isabel Hudson	11 December 2009	18 February 2010	23 April 2015	1
Kory Sorenson	9 May 2014	1 July 2014	1 July 2017	27
David Woods	21 December 2009	18 February 2010	23 April 2015	1

The above tables have been included to comply with Listing Rule 9.8.8. In the event of cessation of a Non-Executive Director's appointment (excluding the Chairman) they would be entitled to one month's notice. The Chairman, as detailed in his letter of appointment, would be entitled to six months' notice.

THE GOVERNANCE OF THE REMUNERATION COMMITTEE

The Group established the Remuneration Committee in 2010. The terms of reference of the Committee are available at www.thephoenixgroup.com. During 2014 the Committee invited Kory Sorenson to become a member and also saw the retirement of David Barnes from the Committee and Board. The main determinations of the Committee in 2014 in respect of the application of the Remuneration Policy are summarised in the Committee Chairman's letter to shareholders at the start of the Directors' remuneration report. In addition to this, in 2014, the Committee considered the impact of the disposal of Ignis on the remuneration arrangements of both Ignis and the wider Group.

The table below shows the independent Non-Executive Directors who served on the Remuneration Committee during 2014 and their date of appointment:

Member	From	To
Ian Cormack (Remuneration Committee Chairman)	18 February 2010	To date
David Barnes	18 February 2010	22 October 2014
Isabel Hudson	18 February 2010	To date
Kory Sorenson	3 July 2014	To date

Under the Committee's Terms of Reference, the Committee meets at least twice a year but more frequently if required. During 2014, seven Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 54.

As reported last year, during 2014, certain responsibilities of the Committee were assumed by the remuneration committee of the board of Phoenix Life Holdings Limited (PLHL committee), the highest EEA insurance holding company within the Group. This structure had been introduced initially to help manage the oversight of Ignis' remuneration with the PLHL committee being responsible for that (as well as some aspects of pay for UK based employees below Board level). The members of the two committees were the same and this did not impact the governance of remuneration from any external perspective, but it did simplify the oversight of remuneration matters affecting Ignis and other UK based employees. Meetings of this committee were in addition to the seven meetings of the Phoenix Group Holdings Committee referred to above. Following the sale of Ignis, the additional committee was disbanded on 20 November 2014 with its responsibilities returned to the Phoenix Group Holdings Committee.

None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

ADVICE

The Committee received independent remuneration advice during the year from its appointed adviser, FIT Remuneration Consultants LLP ('FIT'). FIT is a member of the Remuneration Consultants Group (the professional body for remuneration consultants) and adheres to its code of conduct. This appointment was made by the Committee following consideration of FIT's experience in this sector. FIT provided no other services to the Group and accordingly the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2014 were £195,664 (plus VAT where applicable). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

The Committee also consulted with the Group Chief Executive Officer, Group HR Director and General Counsel who attended, by invitation, various Committee meetings during the year although no executive is ever permitted to participate in discussions or decisions regarding his or her own remuneration. Input is also sought from the Chief Risk Officer (without management present) and from representatives from finance, as appropriate.

APPROVAL

This report in its entirety has been approved by the Remuneration Committee and the Board of Directors and signed on its behalf by

IAN CORMACK
REMUNERATION COMMITTEE CHAIRMAN
17 March 2015

APPENDIX TO DIRECTORS' REMUNERATION REPORT:

FOR INFORMATION ONLY: THE SUMMARY REMUNERATION POLICY TABLE FROM THE DIRECTORS' REMUNERATION POLICY APPROVED AT THE 2014 AGM

Remuneration Policy table

Element and purpose	Policy and operation	Maximum	Performance measures
Base salary This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution	– Base salaries are reviewed each year against companies of similar size and complexity and set by reference to the median data of comparators which the Remuneration Committee considers to be suitable, with consideration given to both relevant insurance companies and the FTSE 31-100 as a whole – The Remuneration Committee does not strictly follow data but uses it as a reference point in considering, in its judgement, the appropriate level of salary having regard to other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities, and the level of salary increase awarded to other employees of the Group – Base salary is paid monthly in cash – Changes to base salaries normally take effect from 1 January	– The Remuneration Committee will apply the factors set out in the previous column in considering any salary adjustments during the duration of this policy and, in any event, no increase will be made if it would take an Executive Director's salary above the median level of salaries for the Remuneration Committee's assessment of that role in the FTSE 31-100 at or shortly prior to when any increase is considered	– N/A
Benefits[1] To provide other benefits valued by recipient	– The Group provides market competitive benefits in kind. Details of the benefits provided in 2013 and 2014 are set out in the section below[1] The Remuneration Committee reserves discretion to introduce new benefits where it concludes that it is in the interests of Phoenix Group to do so, having regard to the particular circumstances and to market practice – Where appropriate, the Company will meet certain costs relating to Executive Director relocations	– It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will normally operate within an annual limit of 10% of an Executive Director's base salary – The Remuneration Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Remuneration Committee considers to be appropriate in all the circumstances – Relocation expenses are subject to a maximum limit of £150,000	– N/A
Pension To provide retirement benefits and remain competitive within the market place	– The Group provides a competitive employer sponsored pension plan – All Executive Directors are eligible to participate in the Group Personal Pension ('GPP'). Executive Directors receive a contribution to GPP or they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits – Phoenix will honour the pensions obligations entered into under all previous policies in accordance with the terms of such obligations	– A contribution limit of 20% of base salary per annum per Executive Director has been set for the duration of this policy	– N/A

Element and purpose	Policy and operation	Maximum	Performance measures
Annual Incentive **Plan ('AIP')** To motivate employees and incentivise delivery of annual performance targets	– AIP levels and the appropriateness of measures are reviewed annually to ensure they continue to support the Group's strategy – AIP outcomes are paid in cash in one tranche (less the deferred share award) – One-third of any annual AIP award is to be deferred into shares for a period of three years although the Remuneration Committee reserves discretion to alter the current practice of deferral (whether by altering the portion deferred, the period of deferral or whether amounts are deferred into cash or shares). Such alterations may be required to ensure compliance with regulatory guidelines for pay within the insurance sector, but will not otherwise reduce the current portion deferred or the period of deferral – Deferral of AIP outcomes into shares is currently made under the Phoenix Group Holdings' Deferred Bonus Share Scheme ('DBSS') and DBSS awards are made following the announcement of annual results in accordance with the DBSS rules – Awards under DBSS will be in the standard form of awards to receive shares for nil-cost (with the shares either being delivered automatically at vesting or being delivered at a time following vesting at the individual's choice) – During the period until vesting of DBSS awards, the number of shares within such awards are cumulatively increased by the value of dividends notionally payable in respect of the vesting shares – Malus/clawback provisions apply to the AIP and to amounts deferred and may be operated in a broad range of circumstances, including those prescribed by the FCA's Remuneration Code	– The maximum annual incentive level for an Executive Director is 150% of base salary per annum	– The performance measures applied to AIP will be set by the Remuneration Committee and may be financial or non-financial and corporate, divisional or individual and in such proportions as it considers appropriate – In respect of the financial performance measures, attaining the threshold performance level produces a £nil annual incentive payment and for non-financial performance measures the threshold level of performance produces an annual incentive outcome that is 10% of the weighting given to these measures – On-target performance on all measures produces an outcome of 50% of maximum annual incentive opportunity. However, the Remuneration Committee reserves the right to adjust the threshold and target levels for future financial years in light of competitive practice – The AIP operates subject to three levels of moderation: i. The Remuneration Committee sets targets for relevant AIP metrics. Recognising that the business of the Company is to engage in corporate activity, the Remuneration Committee may adjust targets during the year to ensure they operate as originally intended if there is activity not contemplated by the business plan (which may or may not include reflecting the consequences of such activity depending on the circumstances) ii. For 2014 onwards, there is a specific multiplier of 80%–120% of the provisional out-turn whereby the Remuneration Committee may adjust the provisional figure (but subject to any over-riding cap) to take account of its broad assessment of performance both against pre-set targets and more generally, of the wider shareholder experience. With respect to financial performance measures, this assessment will include consideration of the quality of how particular outcomes were achieved iii. The AIP remains a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the out-turn (from zero to any cap) should it consider that to be appropriate. In particular, the Remuneration Committee may operate this discretion in respect of any risk concerns

Element and purpose	Policy and operation	Maximum	Performance measures
Long-Term Incentives To motivate and incentivise delivery of sustained performance over the long term, and to promote alignment with shareholders' interests, the Group operates the Phoenix Group Holdings Long-Term Incentive Plan	– Awards under the LTIP may be in any of the standard forms of awards to receive shares for nil-cost (as described for DBSS above), forfeitable awards of shares or in the form of cash-based 'phantom' awards – Awards are made following the announcement of annual results in accordance with the LTIP rules – During the period until vesting of LTIP awards, the number of	– The formal limit under the LTIP is 300% of base salary per annum (and 400% per annum in exceptional cases) – The Remuneration Committee expressly reserves discretion to make such awards as it considers appropriate within these limits	– The Remuneration Committee may set such performance conditions for LTIP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual) – Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it

	shares within such awards is cumulatively increased by the value of dividends notionally payable in respect of the vesting shares – Malus/clawback provisions apply on a basis consistent with the equivalent provisions in the AIP and DBSS – The Company will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards		appropriate to make adjustments to the performance conditions, provided that any adjusted performance condition is, in its opinion, neither materially more nor less difficult to satisfy than the original condition – For each part of an LTIP award subject to a specific performance condition, the threshold level of vesting is 25% of that part of the LTIP award. The Remuneration Committee reserves the discretion to make changes to these levels which it considers non-material – The performance period for LTIP awards will be at least three years, but the Remuneration Committee reserves discretion to lengthen (but not reduce) any performance period and/or introduce a separate holding period for vested shares[2]
All-employee share plans To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders	– Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees as required by HMRC legislation	– Sharesave – the Remuneration Committee has the facility to allow individuals to save up to a maximum of £500 each month (or such other level as permitted by HMRC legislation) for a fixed period of three or five years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20% (although for 2014 and past years this has been set at 15%) of the market price set at the launch of each scheme – Share Incentive Plan ('SIP') – the Remuneration Committee has the facility to allow individuals to have the opportunity to purchase, out of their pre-tax salary, shares in the Company (up to such level as permitted by the Company in line with HMRC legislation) and receive up to two matching shares for every purchased share (although for 2014 and past years matching has been offered at one matching share for every six shares purchased). SIP also has the facility to allow for reinvestment of dividends in further shares, or the award of additional free shares (up to the limits as permitted by HMRC legislation)	– Consistent with normal practice, such awards are not subject to performance conditions

Element and purpose	Policy and operation	Maximum	Performance measures
Shareholding Guidelines To encourage share ownership by the Executive Directors and ensure interests are aligned	– Executive Directors are expected to retain all shares (net of tax) which vest under the DBSS and under the LTIP (or any other discretionary long-term incentive arrangement introduced in the future) until such time as they hold a specified value of shares – Only beneficially owned shares and vested share awards (discounted for anticipated tax liabilities) may be counted for the purposes of the guidelines. Share awards do not count prior to vesting (including DBSS awards) – Once shareholding guidelines have been met, individuals are expected to retain these levels as a minimum. The Remuneration Committee will review shareholdings annually in the	– 200% of base salary for the Group Chief Executive Officer, 100% of base salary for all other Executive Directors[3]	– N/A

	context of this policy		
Chairman and Non-Executive Director fees	– The fees paid to the Chairman and the fees of the other Non-Executive Directors are set to be competitive with other listed companies of equivalent size and complexity (both relevant insurance companies and the FTSE 31-100 as a whole) – Fee levels are periodically reviewed. The Company does not adopt a quantitative approach to pay positioning and exercises judgement as to what it considers to be reasonable in all the circumstances as regards quantum – Additional fees are paid to Non-Executive Directors who chair or sit on a Board committee, or on boards of subsidiary entities or on the Solvency II Model Governance Committee and to the Senior Independent Director ('SID') – Fees are paid monthly in cash – Fee levels for Non-Executive Directors are reviewed annually with any changes normally taking effect from 1 January	– The aggregate fees of the Chairman and Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees (currently £2 million per annum in aggregate) – The Company reserves the right to vary the structure of fees within this limit including, for example, introducing time-based fees or reflecting the establishment of new Board committees –	– N/A

FOOTNOTES TO THE ABOVE REMUNERATION POLICY TABLE

1. Benefits in 2014 and 2015
For details of benefits in 2014, please see note 1 to the 'Single Figure of Remuneration Table' on page 67.

2. Holding Period for LTIP awards from 2015
For LTIP awards from 2015 a two-year holding period has been introduced as explained in the 'Implementation of Remuneration Policy in 2015' table on page 63.

3. Shareholding Guidelines from 2015
These have been extended to 200% of base salary for all Executive Directors.

RECRUITMENT REMUNERATION POLICY

The Company's recruitment remuneration policy aims to give the Remuneration Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

– In terms of the principles for setting a package for a new Executive Director, the starting point for the Remuneration Committee will be to apply the general policy for Executive Directors as set out above and structure a package in accordance with that policy. Consistent with the new UK regulations, the caps contained within the policy for fixed pay do not apply to new recruits, although the Remuneration Committee would not envisage exceeding these caps in practice.

– The AIP and LTIPs will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director.

– For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

– For external and internal appointments, the Remuneration Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

– For external candidates, it may be necessary to make additional awards in connection with the recruitment to replace awards forfeited by the individual on leaving a previous employer. For such replacement awards, Phoenix Group will not pay more than is, in the view of the Remuneration Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure. It may, however, be necessary in some cases to make such awards on terms that are more bespoke than the existing annual and equity-based pay structures in Phoenix in order to secure a candidate. Details of any recruitment-related awards will be appropriately disclosed.

– All such replacement awards, whether under the AIP, LTIP or otherwise, will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Remuneration Committee will seek to make replacement awards subject to what are, in its opinion, comparable requirements in respect of, service and performance. However, the Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed), and where the Remuneration Committee considers it to be in the interest of shareholders or where such factors are, in the view of the Remuneration Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited. Exceptionally, where necessary, this may include a guaranteed or non pro-rated annual incentive in the year of joining.

– For the avoidance of doubt, such replacement awards are not subject to a formal cap. The Remuneration Committee has not placed a maximum limit on any such awards which it may be necessary to make as it is not considered to be in shareholders' interests to set any expectations for prospective candidates regarding such awards. Any recruitment-related awards which do not replace awards with a previous employer will be subject to the limits for incentive pay as stated in the general policy.

A new Non-Executive Director would be recruited on the terms explained above in respect of the main policy for such Directors.

TERMINATION POLICY SUMMARY

In practice, the facts surrounding any termination do not always fit neatly into defined categories for good or bad leavers. Therefore, it is appropriate for the Remuneration Committee to consider the suitable treatment on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatment which the Remuneration Committee may choose to apply under the discretions available to it under the terms of the AIP, DBSS and LTIP plans. The potential treatments on termination under these plans are summarised below.

Incentives	Good leaver	Bad leaver	Exceptional events
	If a leaver is deemed to be a 'good leaver'; i.e. leaving through redundancy, serious ill health or death or otherwise at the discretion of the Remuneration Committee	If a leaver is deemed to be a 'bad leaver'; typically voluntary resignation or leaving for disciplinary reasons	For example change in control or winding up of the Company
AIP	Pro-rated annual incentive. Pro-rating to reflect only the period worked. Performance metrics determined by the Remuneration Committee	No awards made	Either the AIP will continue for the year or there will be a pro-rated annual incentive. Performance metrics determined by the Remuneration Committee
DBSS	Deferred awards vest	Deferred awards normally lapse	Deferred awards vest
LTIP	Will receive a pro-rated award subject to the application of the performance conditions at the normal measurement date Remuneration Committee discretion to disapply pro-rating or to accelerate vesting to the date of leaving (subject to pro-rating and performance conditions)	All awards will normally lapse	Will receive a pro-rated award subject to the application of the performance conditions at the date of the event. Remuneration Committee discretion to disapply pro-rating

The Company has power to enter into settlement agreements with executives and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of termination of an Executive Director, the Company may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

POTENTIAL REWARDS UNDER VARIOUS SCENARIOS

The potential total rewards available to the Executive Directors, ignoring any change in share price and roll-up of dividends are presented on page 82 of the Annual Report and Accounts 2014.

The chart aims to show how the remuneration policy set out above for Executive Directors is applied using the following assumptions.

Minimum	Consists of base salary, benefits and pension Base salary is the salary to be paid in 2014 Benefits measured as benefits paid in 2013 as set out in the single figure table but excluding relocation payments for James McConville Pension measured as the 20% of base salary receivable either as a pension contribution or as cash, and ignoring the reduction to payments made in cash for employer's national insurance contributions				
Name		Base salary	Benefits	Pension	Total fixed
Clive Bannister		£700	£17	£140	£857
James McConville		£440	£16	£88	£544
On-target	Based on what the Director would receive if performance was on-target: – AIP: consists of the on-target annual incentive (75% of base salary) – LTIP: consists of the threshold level of vesting (50% of base salary). The benefit of a single year's participation in the Sharesave scheme is recognised using an expected value for the Sharesave options of 30%. The benefit of a single year's participation in the SIP is recognised using one matching share for every six shares invested on the maximum value which can be invested.				
Maximum	Based on the maximum remuneration receivable: – AIP: consists of the maximum annual incentive (150% of base salary) – LTIP: assumes maximum vesting of awards and valued as on the date of grant (200% of base salary). Sharesave and SIP valued on the same basis as in the on-target column.				

DIRECTORS' REPORT

INTRODUCTION

Phoenix Group Holdings is incorporated in the Cayman Islands (registered no. 202172) and has a Premium Listing on the London Stock

Exchange. The Company is not required to comply with the requirements of the UK Companies Act 2006. However, the directors support these enhanced standards for disclosure and have sought to comply voluntarily with these requirements.

SHAREHOLDERS

DIVIDENDS

Dividends for the year are as follows:

Ordinary shares	
Paid interim dividend	26.7p per share (2013: 26.7p per share)
Recommended final dividend	26.7p per share (2013: 26.7p per share)
Total ordinary dividend	53.4p per share (2013: 53.4p per share)

SHARE CAPITAL

The issued share capital of the Company was increased by 271,983 ordinary shares during 2014 which related to the Company's Sharesave Scheme. At 31 December 2014, the issued ordinary share capital totalled 225,090,284. Subsequently, 25,484 ordinary shares have been issued in 2015 in connection with the Company's Sharesave Scheme to bring the total in issue to 225,115,768 at the date of this report.

Full details of the authorised, issued and fully paid share capital as at 31 December 2014 and movements in share capital during the period are presented in note 16 to the IFRS consolidated financial statements.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association (the 'Company's Articles') which are available on the Company's website at www.thephoenixgroup.com/about-us/corporate-governance/articles-of-association.aspx.

Where the Employee Benefit Trust ('EBT') holds shares for unvested awards, the voting rights for these shares are exercisable by the trustees of the EBT at their discretion, taking into account the recommendations of the Group. For shares that have vested into respective sub funds underneath the EBT, the voting rights are exercisable by the trustees of the respective sub funds at their discretion, taking into account the recommendations of the relevant participant of the respective sub funds.

RESTRICTIONS ON TRANSFER OF SHARES

Under the Company's Articles, the Directors may in certain circumstances refuse to register transfers of shares. In particular, the Board of Directors may refuse to register the transfer of shares to a person who is a Non-Qualified Person (as defined in the Company's Articles).

Certain restrictions on the transfer of shares may be imposed from time to time by applicable laws and regulations (for example, insider trading laws), and pursuant to the Listing Rules of the Financial Conduct Authority ('FCA') and the Group's own share dealing rules whereby directors and certain employees of the Group require the approval of the Company to deal in the Company's ordinary shares.

SUBSTANTIAL SHAREHOLDINGS

Information provided to the Company pursuant to the FCA's Disclosure and Transparency Rules is published on a Regulatory Information Service and on the Company's website. As at 17 March 2015, the Company had been notified of the following significant holdings of voting rights in its shares.

	Number of voting rights in shares	Percentage of shares in issue
Artemis Investment Management LLP	22,828,932	10.14
Henderson Global Investors	11,427,356	5.08
Ameriprise Financial Inc.	11,277,894	5.01
Nicholas Berggruen Charitable Trust	8,906,712	3.96
FIL Limited	8,756,186	3.89

ANNUAL GENERAL MEETING ('AGM')

The AGM of the Company will be held at 32 Commercial Street, St Helier, Jersey JE2 3RU on Thursday, 23 April 2015 at 1pm.

A separate notice convening this meeting will be distributed to shareholders in due course and will include an explanation of the items of business to be considered at the meeting.

BOARD

BOARD OF DIRECTORS

The membership of the Board of Directors during 2014 is given within the Corporate Governance Report on pages 48 to 49 which are incorporated by reference into this report. Details of directors and their connected persons' beneficial and non-beneficial interests in the shares of the Company are shown in the Directors' remuneration report.

During 2014 and up to the date of this report, the following changes to the Board took place:

- Manjit Dale resigned from the Board on 30 April 2014
- Kory Sorenson joined the Board as a Non-Executive Director with effect from 1 July 2014
- David Barnes resigned from the Board on 22 October 2014.

Details of related party transactions which took place during the year with directors of the Company and consolidated entities where directors are deemed to have significant influence, are provided in the Directors' remuneration report and in note 43 to the IFRS consolidated financial statements.

The rules about the appointment and replacement of directors are contained in the Company's Articles. These state that a director may be appointed by an ordinary resolution of the shareholders or by a resolution of the directors. If appointed by a resolution of the directors, the director concerned holds office only until the conclusion of the next AGM following the appointment.

In accordance with the UK Corporate Governance Code, directors must stand for re-election annually. The Board of Directors will be unanimously recommending that all of the directors should be put forward for election/re-election at the forthcoming AGM to be held on 23 April 2015.

The Articles give details of the circumstances in which directors will be treated as having automatically vacated their office and also state that the Company's shareholders may remove a director from office by passing an ordinary resolution.

The powers of the directors are determined by Cayman Islands Company Law, Cayman Islands common law, the provisions of the Company's Memorandum and Articles and by any valid directions given by shareholders by way of special resolution.

The directors have been authorised to allot and issue securities and grant options over or otherwise dispose of shares under Article 14.

At the Company's AGM held on 30 April 2014, shareholders granted the Company authority to purchase up to 10% of its issued ordinary shares. Any ordinary shares purchased under the authority would, subject to the Cayman Islands Companies Law (as amended), either be cancelled by operation of law or held in treasury. These authorities were not used during the year or up to the date of this report.

Subject to obtaining shareholder approval for the renewal of this authority at the forthcoming AGM, the Company is authorised to make purchases of its own shares under Article 20 and make payment for the redemption or purchase of its own shares in any manner permitted by the Cayman Islands Companies Law (as amended), applicable law or regulation, including without limitation, out of capital, profits, share premium or the proceeds of a new issue of shares. The Company held no treasury shares during the year or up to the date of this report.

DIRECTORS' REMUNERATION AND INTERESTS

A report on Directors' remuneration is presented within the Directors' remuneration report including details of their interests in shares and share options or any rights to subscribe for shares in the Company.

DIRECTORS' INDEMNITIES

Following shareholder approval on 15 March 2010, the Company entered into a deed of indemnity by way of deed poll with its directors whereby the Company has agreed to indemnify each director against all losses incurred by them in the exercise, execution or discharge of their powers or duties as a director of the Company, provided that the indemnity shall not apply to the extent prohibited by any applicable law.

The deed of indemnity remains in force as at the date of signature of this Directors' Report.

DIRECTORS' CONFLICTS OF INTEREST

The Board has established procedures for handling conflicts of interest in accordance with Cayman Islands law and the Company's Articles.

On an ongoing basis, directors are responsible for informing the Company Secretary of any new, actual or potential conflicts that may arise.

All directors and employees of the Company and its subsidiaries are subject to the Group conflicts of interest policy which has been established to provide a clear framework for an effective system of internal control to manage conflicts of interest throughout the Group.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company maintains Directors' and Officers' liability insurance cover which is renewed annually.

GOVERNANCE

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also provides details of any key events affecting the Company (and its consolidated subsidiaries) since the end of the financial year. The Strategic Report includes details of the Group's cash flow and solvency position, including sensitivities for both. Principal risks and their mitigation are detailed on pages 39 to 41. In addition, the financial statements include, amongst other things, notes on the Group's borrowings (note 23), management of its financial and insurance risk including market, credit and liquidity risk (note 40), its commitments and contingent liabilities (notes 42 and 44) and its capital position and management (note 39). The Strategic Report (on pages 12 to 21) sets out the business model and how we create value for shareholders and policyholders.

The Board has followed the UK Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' when performing its going concern assessment. As part of its comprehensive assessment of whether the Group and the Company are a going concern, the Board has undertaken a review of the valuation and liquidity of its investments as at the date of preparation of the statement of consolidated financial position. The Board has also reviewed solvency and cash flow projections under both normal and stressed conditions.

Having thoroughly considered the going concern assessment, including a detailed review of the regulatory capital and cash flow positions of each principal subsidiary company and the availability across the Group of a range of management actions, the Board has concluded that there are no material uncertainties that may cast significant doubt about the Group and the Company's ability to continue as a going concern. The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The new (September 2014) provisions of the UK Corporate Governance Code apply to Phoenix Group Holdings from the financial year commencing 1 January 2015. We are well-placed to comply with the new going concern provisions and, as required, will report against them in our 2015 Annual Report.

CORPORATE GOVERNANCE STATEMENT

The disclosures required by section 7.2 of the FCA's Disclosure and Transparency Rules can be found in the Corporate Governance Report on pages 51 to 59 which is incorporated by reference into this Directors' Report and comprises the Company's Corporate Governance Statement. The UK Corporate Governance Code (the 'Code') applies to the Company and full details on the Company's compliance with the Code are included in the Corporate Governance Report. The Code is available on the website of the Financial Reporting Council – www.frc.org.uk.

GREENHOUSE GAS EMISSIONS

All disclosures concerning the Group's greenhouse emissions are contained in the Corporate Responsibility Report forming part of the Strategic Report on pages 42 to 45.

FINANCIAL RISK MANAGEMENT

The Group operates a Risk Management Framework ('RMF') consisting of several components, as detailed in the Risk management section of the Strategic Report. The RMF provides a consistent approach to highlighting and controlling key risks throughout the organisation. This is achieved primarily through review and compliance, at a functional level, with the risk universe and related policies (and the risk appetites therein). At its highest level the RMF considers the following risks: strategic, market, credit, insurance, financial soundness and operational. As a result, in preparing the consolidated financial statements, assessment is given to a broad range of risk categories.

MEMORANDUM AND ARTICLES

Changes to the Company's Memorandum and Articles require prior shareholder approval.

The Memorandum and Articles are available on the Company's website at www.thephoenixgroup.com/about-us/corporate-governance/articles-of-association.aspx.

RE-APPOINTMENT OF THE AUDITORS

During 2014 the Board approved the change in auditor from Ernst & Young Accountants LLP (Netherlands) to Ernst & Young LLP (UK). Ernst & Young LLP has indicated its willingness to continue in office and a resolution that it is re-appointed will be proposed at the AGM.

Following the change in auditor there is no cap on auditor liability in place in relation to audit work carried out on the consolidated IFRS financial statements, MCEV supplementary information and the Group's UK subsidiaries' individual financial statements.

Details of fees paid to Ernst & Young during 2014 for audit and non-audit work are disclosed in note 11 to the IFRS consolidated financial statements.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

GROUP COMPANY SECRETARY

The Group Company Secretary throughout the period was Gerald Watson.

CONTRACTUAL / OTHER

SIGNIFICANT AGREEMENTS IMPACTED BY A CHANGE OF CONTROL OF THE COMPANY

There are change of control clauses contained in certain of the Group's financing agreements. The Group's £900 million unsecured bank facility has, like the Group's previous two facilities agreements, a provision which would enable the lending banks to require repayment of all amounts borrowed following a change of control. The £300 million unsecured bonds may also be required to be redeemed following a change of control. Whether such redemption is required will depend on the impact of a change of control on any existing rating applying to the £300 million unsecured bonds, or, if no rating applies at the time of the change of control, whether a rating is obtained subsequently.

In addition, certain provisions of the Articles relating to the City Code on Takeovers and Mergers apply in connection with a takeover bid.

All of the Company's employee share and incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans.

Apart from the aforementioned, there are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group.

ESSENTIAL CONTRACTS OR ARRANGEMENTS

There are a number of relationships with third parties which are of significant value to the Group. Apart from the current £900 million unsecured bank facility, £300 million unsecured bonds, the £200 million Phoenix Life Limited Tier 2 bonds and the £428 million new subordinated notes, no single relationship is considered to be essential to the Group.

GROUP EMPLOYEES

The Group is committed to achieving equality of opportunity and the equal treatment of all our people and those applying to join us. To this end, all our people share an obligation to their colleagues, customers and business partners to provide a safe, fair and equitable working environment in which every individual can seek, obtain and continue employment without experiencing any unfair or unreasonable discrimination.

The Group recognises the need to treat people with disabilities fairly and equally including where an employee becomes disabled during their employment. Full and fair consideration is given to internal and external applications from disabled people for employment and further career opportunities, including training and development. Internal and external applicants are asked if they have any special requirements when invited to attend an interview and reasonable provisions are made to meet the applicant's request. Applicants are considered on the basis of the job requirements and their ability and competencies, also taking into consideration any appropriate reasonable workplace adjustments.

The Group provides the opportunity for employees to participate in the Company's all-employee share schemes, Sharesave and Share Incentive Plan, to facilitate share ownership in the Company.

EMPLOYEE PRACTICE

Phoenix Group continues to communicate with staff across a wide variety of channels, including regular news bulletins via the intranet, staff magazines and newsletters, Executive Committee presentations and other face-to-face briefings. The staff briefings and Executive Committee presentations typically include updates on the Company's strategy and plans, progress against key financial and operational targets, regulatory and risk management updates and review of economic or other factors which could affect the Company's strategy and performance. Regular feedback mechanisms are also in place, ensuring communication at Phoenix is a continuous two-way dialogue.

The views and opinions of staff are sought through Phoenix's annual Engagement Survey and more regular interim surveys and employee communication and engagement forums. Phoenix undertakes meaningful consultation with staff representatives on all major organisational changes and other matters affecting employees.

OTHER MATTERS

The Board has prepared a Strategic Report which provides an overview of the development and performance of the Group's business for the year ended 31 December 2014, covers the future developments in the business of Phoenix Group Holdings and its consolidated subsidiaries, and provides details of any important events affecting the Company and its subsidiaries after the year end. For the purposes of compliance with

DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the 'Management Report' can be found in the Strategic Report and this Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference.

In addition, the Directors at the date of this report consider that the Annual Report and Accounts, taken as a whole, provides users (who have a reasonable knowledge of business and economic activities) the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable.

OTHER INFORMATION

For the purposes of Listing Rule 9.8.4C R, the information required to be disclosed under Listing Rule 9.8.4 R can be found within the following sections of the Report and Accounts:

Section	Requirement	Location
1	Statement of interest capitalised	Note 23 to the Consolidated Financial Statements
2	Publication of unaudited financial information	Not applicable
3	Deleted	Not applicable
4	Details of long-term incentive schemes	Directors' remuneration report
5	Waiver of emoluments by a director	Directors' remuneration report
6	Waiver of any future emoluments by a director	Directors' remuneration report
7	Non pre-emptive issue of equity for cash	Not applicable
8	As per 7, but for major subsidiary undertakings	Not applicable
9	Parent participation in any placing of a subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Controlling shareholder provision of services	Not applicable
12	Shareholder dividend waiver	Not applicable
13	Shareholder dividend waiver – future periods	Not applicable
14	Controlling shareholder agreements	Not applicable

The Strategic Report and the Directors' Report were approved by the Board of Directors on 17 March 2015.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

St Helier, Jersey

17 March 2015

Our strategic partnerships provide our customers with access to a wide range of investment products and expertise.

FINANCIAL INFORMATION

FRS FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN

RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS OF PHOENIX GROUP HOLDINGS

The Directors of Phoenix Group Holdings are responsible for the preparation of the Annual Report and Accounts, the Strategic Report, the Directors' Report, the Directors' remuneration report and the Group consolidated financial statements and the Company financial statements in accordance with applicable law and regulations.

The Directors have prepared the Group consolidated financial statements and the Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'). The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRS, as adopted by the IASB have been followed, subject to any material departures disclosed and explained in the Group and the parent Company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 48 to 49, confirm that, to the best of their knowledge;

- The Group's consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and
- The Directors' Report and the Strategic Report include a fair review of the development and the performance of the business and the position of the Company and its consolidated subsidiaries taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the Directors as at the date of this report consider that the Annual Report and Accounts, taken as a whole, provides users (who have a reasonable knowledge of business and economic activities) with the information necessary for shareholders to assess the Group's performance, business model and strategy, and is fair, balanced and understandable.

The Directors have elected to comply with certain Companies Act and Listing Rules ('LR') which would otherwise only apply to companies incorporated in the UK – namely:

- The Directors' statement under LR 9.8.6R(3) (statement by the Directors that the business is a going concern);
- The Directors' remuneration disclosures made under LR 9.8.8R(2) – (5) and (11) – (12); and
- The requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration that UK quoted companies are required to comply with.

By order of the Board

CLIVE BANNISTER	JAMES MCCONVILLE
GROUP CHIEF EXECUTIVE OFFICER	GROUP FINANCE DIRECTOR

St Helier, Jersey
17 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHOENIX GROUP HOLDINGS

REPORT ON THE FINANCIAL STATEMENTS

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's and of the parent company's profit for the year then ended; and
- the Group financial statements and the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB').

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT AND OUR RESPONSE TO THAT RISK

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. We primarily focused our work in the areas where the Directors made significant judgements, for example in respect of significant accounting estimates that involved making assumptions about future events that are inherently uncertain.

The table below sets out the risks we identified that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team and present the most significant risks of material misstatements to the financial statements. The table also sets out how our audit addressed these risks.

SIGNIFICANT RISK	OUR AUDIT RESPONSE TO THOSE RISKS

VALUATION OF COMPLEX AND ILLIQUID FINANCIAL INVESTMENTS

Audit committee report	Critical accounting estimates	Accounting policies	Notes
Refer to pages 54 to 57.	Refer to page 105.	Refer to page 106.	Refer to page 135.

We considered the valuation of insurance contract liabilities to be a significant risk for the Group. Specifically we considered the actuarial assumptions and methodologies which are applied, as these involve complex and significant judgments about future events, both internal and external to the business, for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is contingent on the accuracy and completeness of the data used. In 2014 a new actuarial reporting system was implemented by management to replace a number of legacy models which were inherited by the Group via multiple acquisitions.

We have split the risks relating to the valuation of insurance contract liabilities into the following significant risks:

– Actuarial assumptions and methodology;

– Implementation of the new actuarial reporting system; and

– Actuarial data.

We assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements. This provided important audit evidence over the valuation of insurance contract liabilities. Further additional audit procedures performed to respond to the specific significant risks are set out below:

ACTUARIAL ASSUMPTIONS AND METHODOLOGY Economic assumptions are set by management taking account of market conditions as at the valuation date. Non–economic assumptions such as expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends. The assumptions that we consider to have the most significant impact are the rate of interest used for discounting liabilities, the allowance for expected credit default within the investment portfolio, life expectancy of policyholders and life expectancy improvement for annuitants. These assumptions are used as inputs into a valuation model which uses standard actuarial methodologies.	In obtaining sufficient audit evidence to conclude on actuarial assumptions and methodology, we: – Assessed the design, implementation and operating effectiveness of key controls over management's process for setting and updating actuarial assumptions and methodology. – Compared the methodology and assumptions used with those we would expect based on our knowledge of the Group, industry standards and regulatory and financial reporting requirements. – Evaluated management's interpretation of experience data in order to compare recent experience investigations with the key assumptions used to ensure that the available evidence supported the assumptions being applied. – Evaluated the choice of the industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to ensure that it was appropriate given the demographics of policyholders. – Benchmarked key assumptions and judgements to market norms and against historical data.

SIGNIFICANT RISK	OUR AUDIT RESPONSE TO THOSE RISKS
IMPLEMENTATION OF THE NEW ACTUARIAL REPORTING SYSTEM THE IMPLEMENTATION OF THE NEW ACTUARIAL REPORTING SYSTEM IMPACTED ALL ASPECTS OF THE ACTUARIAL VALUATION PROCESS, FROM EXTRACTION AND CONVERSION OF DATA THROUGH TO THE PRESENTATION OF THE RESULTS AND ANALYSIS OF MOVEMENT.	In obtaining sufficient audit evidence to conclude on the appropriateness of the new actuarial reporting system, we: – Assessed the governance and controls implemented by management over each stage of the implementation process. – Evaluated the design, implementation and operating effectiveness of key controls including Information Technology general controls over the revised actuarial modelling and reporting process. – Tested the output of parallel valuation runs between the new and the old systems and obtained evidence to support significant differences.
ACTUARIAL DATA THE ACTUARIAL DATA IS A KEY INPUT FOR SETTING AND VALIDATING ACTUARIAL ASSUMPTIONS AND THE VALUATION PROCESS IS THEREFORE CONTINGENT ON THE ACCURACY AND COMPLETENESS OF THE DATA USED.	In obtaining sufficient audit evidence to assess the integrity of actuarial data we: – Assessed the adequacy of Outsourced Service Provider controls regarding the maintenance of policyholder data. – Confirmed that the actuarial data extract from the Outsourced Service Provider was used as an input to the actuarial model. – Verified that the revised data conversion rules in the new application were applied as intended. – Tested the design and operating effectiveness of key controls including Information Technology general controls over management's data collection, extraction and validation process. – Tested the reconciliation of premiums and claims from the actuarial data extract to the general ledger.

SIGNIFICANT RISK	OUR AUDIT RESPONSE TO THOSE RISKS

VALUATION OF COMPLEX AND ILLIQUID FINANCIAL INVESTMENTS

Audit committee report	Critical accounting estimates	Accounting policies	Notes
Refer to pages 54 to 57.	Refer to page 105.	Refer to page 110	Refer to pages 156 to 166

The extent of judgement applied by management in valuing the Group's financial investments varies with the nature of securities held, the markets in which they are traded and the valuation methodology applied.

We focused our audit procedures on the financial investments which require judgment to be applied and for which an observable market value is not readily available. These financial investments include mark to model investments. They also include other investments which are illiquid and/or unquoted and for which prices are obtained directly from brokers or administrators such as direct private equity and hedge funds.

These investments are referred to as 'Level 3' assets in the financial statements.

In obtaining sufficient audit evidence to conclude on valuation of complex and illiquid financial investments, we:

- Assessed the design, implementation and operating effectiveness of key controls and techniques used in the valuation.
- Evaluated the methodology, inputs and assumptions used for a sample of mark to model investments, by comparing yields, spreads, earnings and market rents to published market benchmarks to identify drivers of valuation movements which were not consistent with industry norms.
- Recalculated a sample of components within the modelled valuation to assess its reasonableness.
- Obtained valuation statements provided by third party administrators in respect of direct equity and hedge funds and compared them with management's valuations.

PROVISION FOR TAXATION AND RECOVERABILITY OF DEFERRED TAX ASSETS

Audit committee report	Critical accounting estimates	Accounting policies	Notes
Refer to pages 54 to 57.	Refer to page 105.	Refer to page 108	Refer to pages 127 to 128 and140 to 141

The Group provides for current and deferred tax. Judgement is required in setting those provisions as there is a risk of challenge in respect of some of the Group's provisions.

In assessing the recoverability of the Group's deferred tax assets forecasts of future profitability are made which by their nature involve management's judgement.

In obtaining sufficient audit evidence to conclude on provision for taxation and recoverability of deferred tax assets, we:

- Challenged management's estimate of provisions for uncertain tax provisions considering the status of enquiries raised by HMRC and our assessment of the likelihood of occurrence.
- Considered the latest available information to ensure that management had provided reasonably for known risks.
- Assessed the adequacy of specific provision pertaining to open year tax computations.
- Tested the Group's tax computations, specifically focusing on areas where there are material transactions.
- Tested the integrity of management's forecast cash flows, validating key inputs and confirmed that the stated assumptions and methodology had been consistently applied.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing an audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion in the Audit Report.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.

We determined materiality for the Group to be £41 million (2013: £36 million), which is 1.7% of total equity attributable to owners of the parent ('Group equity'). Whilst profit before tax or operating profit are common bases used across the life insurance industry, we believe that the use of equity as the basis for assessing materiality is more appropriate given that the Group is a closed life assurance consolidator and as such equity provides a more stable, long-term measure of value. We note also that equity more closely correlates with key Group performance metrics such as Insurance Group Directive ('IGD') surplus and Market Consistent Embedded Value ('MCEV'). However, as these measures are non-GAAP measures we consider equity to be most appropriate.

Based on our risk assessments, together with our assessment of the Group's overall control environment, our judgment is that performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% (2013: 50%) of materiality, namely £20.5 million (2013: £18 million).

Our objective in determining these thresholds was to ensure that the total of uncorrected and undetected audit differences do not exceed our materiality of £41 million for the financial statements as a whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2 million (2013: £1.8 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and other relevant qualitative considerations.

OVERVIEW OF THE SCOPE OF OUR AUDIT

The Group comprises of Group functions and Phoenix Life Division. Phoenix Life Division comprises of insurance companies and other companies that provide services to those companies. The tables below illustrate the split of the Group equity and operating profit as at 31 December 2014:

EQUITY		
1	Insurance Companies (Full Scope)	84%
2	Group Function (Full Scope)	14%
3	Other Companies (Specific Scope)	2%

OPERATING PROFIT		
1	Insurance Companies (Full Scope)	86%
2	Group Function (Full Scope)	4%
3	Ignis (Full Scope)	3%
4	Other Companies (Specific Scope)	7%

In order to establish the overall approach for the Group audit, we determined the type of audit work that needed to be performed at each component to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion of the Group financial statements as a whole.

Following our assessment of the risk of material misstatement to the Group financial statements, we selected the insurance companies and Group functions as full scope locations. We have also performed a full scope audit of the Ignis companies (discontinued operations) as at the disposal date, the result of which is included in the Group's financial statements.

Other companies within Phoenix Group Holdings were selected for specific scope audit procedures in respect of provisions, administrative expenses and cash balances. The extent of audit work in respect of other companies was based on our assessment of the risks of material misstatement at a financial statement line level.

Our audit of these components was performed at materiality levels calculated by reference to a proportion of Group materiality reflecting the relative scale of the business concerned, ranging from £4.2 million to £13.7 million. Our audit of these components provides coverage of 98% of the Group's operating profit and 94% of Group equity.

The Group audit team provided detailed audit instructions to component teams which included guidance on specific areas of focus (including the relevant risks of material misstatements detailed above) and set out the information required to be reported to the Group team. The Group team is responsible for the audit of the Group functions. The Group team visited the full scope component being the Phoenix Life Division, and reviewed key work papers and participated in the planning and execution of the component team's audit of the identified risks. The Group team also attended the closing meetings with management for Phoenix Life Division. For specific scope components, the Group team have reviewed submissions received for the specific accounts and held meetings to discuss significant movements to gain full understanding.

The work performed on the components, together with additional procedures performed at the Group level gave us the evidence we needed to form our opinion on the consolidated financial statements as a whole.

WHAT WE HAVE AUDITED

We have audited the consolidated financial statements of Phoenix Group Holdings and its subsidiaries (collectively 'the Group') and the parent company for the year ended 31 December 2014, which comprise:

– the statement of consolidated financial position;
– the consolidated income statement and the statement of consolidated comprehensive income;
– the pro forma reconciliation of Group operating profit to result attributable to owners;
– the statement of consolidated changes in equity;
– the statement of consolidated cash flows;
– the notes to the consolidated financial statements;
– the parent company statement of comprehensive income;
– the parent company statement of financial position;
– the parent company statement of changes in equity;
– the parent company statement of cash flows; and
– the notes to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as issued by the IASB.

This report is made solely to the Company's members, as a body, in accordance with our engagement letter dated 1 August 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

WHAT AN AUDIT OF THE FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

– whether the accounting policies are appropriate to the circumstances and have been consistently applied and adequately disclosed;
– the reasonableness of significant accounting estimates made by the Directors; and
– the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 90, the Directors are responsible for the preparation of the financial statements and the parent company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Phoenix Group Holdings is a non-UK company and as such is not required to comply with the UK Companies Act 2006. As the Group is listed on the UK Stock Exchange, the Directors have voluntarily chosen to comply with the Companies Act 2006 and listing rules that apply to UK Companies and have engaged us to provide an opinion as if they were. Accordingly we have been engaged to:

– report as to whether the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
– report as to whether the information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements;
– report as to whether the section the Directors' remuneration report that is described as audited has been properly prepared in accordance with the basis of preparation described therein;
– report if we are not satisfied that:
  – adequate accounting records have been kept (including returns from those branches which have not been visited);
  – the financial statements are in agreement with the records and returns; or
  – we have obtained all the information and explanations which we consider necessary for the purposes of the audit.
– review in accordance with listing rules:
  – the Directors' statement in relation to going concern; or
  – the requirements of Schedule 8 to the Large and Medium–sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration that UK quoted companies are required to comply with.

REPORT ON MATTERS PRESCRIBED BY OUR ENGAGEMENT LETTER

– the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
– the information given in the Corporate Governance Statement set out on pages 51 to 59 with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements; and
– the part of the Directors' remuneration report that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

PRESCRIBED BY OUR ENGAGEMENT LETTER WE ARE REQUIRED TO REPORT TO YOU BY EXCEPTION IF IN OUR OPINION:

– Adequate accounting records have not been kept (including returns from those branches which have not been visited); or
– The financial statements are not in agreements with the accounting records and returns; or
– We have not received all the information and explanation which we require for the audit; or
– The Directors' Statement set out on page 85 in relation to going concern; or
– the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration that UK quoted companies are required to comply with.

REPORT ON OTHER MATTERS BY EXCEPTION

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

– materially inconsistent with the information in the audited financial statements; or
– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
– is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provision of the UK Corporate Governance Code, specified in for our reivew.

ERNST & YOUNG LLP
LONDON
17 March 2015

Notes:

1. The maintenance and integrity of the Phoenix Group Holdings web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £m	2013 Restated £m
Gross premiums written		981	1,333
Less: premiums ceded to reinsurers	7	(1,792)	11
Net premiums written		(811)	1,344
Fees	8	94	93
Net investment income	9	6,034	2,786

Total revenue, net of reinsurance payable		5,317	4,223
Gain on transfer of business	4	4	42
Other operating income		9	7
Net income		5,330	4,272
Policyholder claims		(3,724)	(4,830)
Less: reinsurance recoveries		341	464
Change in insurance contract liabilities		(1,990)	3,411
Change in reinsurers' share of insurance contract liabilities		1,651	(710)
Transfer to unallocated surplus	22	(11)	(77)
Net policyholder claims and benefits incurred		(3,733)	(1,742)
Change in investment contract liabilities		(408)	(1,156)
Acquisition costs		(9)	(10)
Change in present value of future profits	31	(9)	9
Amortisation of acquired in-force business	31	(98)	(111)
Amortisation of customer relationships and other intangibles	31	(15)	(16)
Administrative expenses	10	(429)	(444)
Net income attributable to unitholders		(8)	(331)
Total operating expenses		(4,709)	(3,801)
Profit before finance costs and tax		621	471
Finance costs	12	(156)	(230)
Profit for the year before tax		465	241
Tax attributable to policyholders' returns	13	(129)	27
Profit before the tax attributable to owners		336	268
Tax (charge)/credit	13	(151)	1
Add: tax attributable to policyholders' returns	13	129	(27)
Tax charge attributable to owners	13	(22)	(26)
Profit from continuing operations for the year attributable to owners		314	242
Discontinued operations			
Profit/(loss) from discontinued operations, net of tax	4	92	(35)
Profit for the year attributable to owners		406	207
Attributable to:			
Owners of the parent		310	145
Non-controlling interests	20	96	62
		406	207
Earnings per ordinary share			
Basic (pence per share)	15	137.7p	68.2p
Diluted (pence per share)	15	137.5p	68.1p
Earnings per share from continuing operations			
Basic earnings per share from continuing operations	15	96.7p	85.3p
Diluted earnings per share from continuing operations	15	96.5p	85.2p

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £m	2013 £m
Profit for the year from continuing operations		314	242
Profit/(loss) from discontinued operations		92	(35)
		406	207
Other comprehensive income/(expense):			
Items that are or may be reclassified to profit or loss:			
Foreign exchange rate movements		10	–
Reclassification adjustments relating to foreign collective investment schemes disposed of in the period		–	8

Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit asset/liability	30	240	–
Tax credit/(charge) relating to other comprehensive income items	13	11	(12)
		261	(4)
Total comprehensive income for the year		667	203
Attributable to:			
Owners of the parent		571	141
Non-controlling interests		96	62
		667	203

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

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £m	2013 Restated £m
Operating profit			
Phoenix Life		487	414
Ignis – discontinued operations		17	49
		504	463
Group costs		(21)	(24)
Total operating profit before adjusting items		483	439
Investment return variances and economic assumption changes on long-term business	6	12	64
Variance on owners' funds	6	(14)	(31)
Amortisation of acquired in-force business		(88)	(99)
Amortisation of customer relationships and other intangibles		(15)	(19)
Non-recurring items	5.2	126	(11)
Profit before finance costs attributable to owners		504	343
Finance costs attributable to owners		(88)	(126)
Profit before the tax attributable to owners			
From continuing operations		336	268
From discontinued operations		80	(51)
	5.2	416	217
Tax charge attributable to owners from continuing operations		(22)	(26)
Tax credit attributable to owners from discontinued operations		12	16
Profit for the year attributable to owners		406	207

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	2014 £m	2013 Restated £m	2012 Restated £m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	16	–	–	–
Share premium		979	1,097	982
Other reserves	17	–	–	5
Shares held by employee benefit trust and Group entities	18	(8)	(13)	(10)

Foreign currency translation reserve		103	93	85
Retained earnings		1,291	732	596
Total equity attributable to owners of the parent		2,365	1,909	1,658
Non-controlling interests	20	913	778	724
Total equity		3,278	2,687	2,382
Liabilities				
Pension scheme liability	30	–	137	197
Insurance contract liabilities				
Liabilities under insurance contracts	21	42,930	42,729	45,730
Unallocated surplus	22	981	970	893
		43,911	43,699	46,623
Financial liabilities				
Investment contracts		8,451	8,578	8,096
Borrowings	23	1,762	2,359	3,046
Deposits received from reinsurers		408	385	454
Derivatives	24	2,192	2,161	3,031
Net asset value attributable to unitholders		4,659	5,744	5,177
Obligations for repayment of collateral received		954	7,284	10,458
	34	18,426	26,511	30,262
Provisions	25	26	53	67
Deferred tax	26	364	373	409
Reinsurance payables		9	12	47
Payables related to direct insurance contracts	27	358	395	393
Current tax	26	165	107	71
Accruals and deferred income	28	130	139	166
Other payables	29	360	307	509
Liabilities classified as held for sale	4.2	1,776	49	5,479
Total liabilities		65,525	71,782	84,223
Total equity and liabilities		68,803	74,469	86,605

	Notes	2014 £m	2013 Restated £m	2012 Restated £m
ASSETS				
Pension scheme asset	30	426	160	137
Intangible assets				
Goodwill		39	96	96
Acquired in-force business		1,413	1,511	1,622
Customer relationships and other intangibles		217	368	384
Present value of future profits		23	32	23
	31	1,692	2,007	2,125
Property, plant and equipment	32	15	23	24
Investment property	33	1,858	1,603	1,727
Financial assets				
Loans and receivables		196	1,977	1,914
Derivatives	24	2,558	1,966	3,669
Equities		13,168	13,913	13,244
Investment in joint ventures		133	125	95
Fixed and variable rate income securities		34,384	35,460	41,200
Collective investment schemes		3,583	3,767	3,843

	34	54,022	57,208	63,965
Insurance assets				
Reinsurers' share of insurance contract liabilities	21	2,772	2,851	3,204
Reinsurance receivables		67	34	64
Insurance contract receivables		8	12	10
		2,847	2,897	3,278
Current tax	26	8	6	6
Prepayments and accrued income		405	462	501
Other receivables	36	750	743	447
Cash and cash equivalents	37	5,067	9,294	9,085
Assets classified as held for sale	4.2	1,713	66	5,310
Total assets		68,803	74,469	86,605

STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £m	2013 Restated £m
Cash flows from operating activities			
Cash (utilised)/generated by operations	38	(3,716)	1,023
Taxation paid		(54)	(11)
Net cash flows from operating activities		(3,770)	1,012
Cash flows from investing activities			
Proceeds from disposal of businesses, net of cash disposed of	4	332	–
Net cash flows from investing activities		332	–
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		1	233
Proceeds from issuing shares in subsidiaries to non-controlling interests		82	37
Ordinary share dividends paid	14	(120)	(120)
Coupon paid on Perpetual Reset Capital Securities		(26)	(26)
Dividends paid to non-controlling interests	20	(22)	(25)
Repayment of policyholder borrowings		(35)	(33)
Repayment of shareholder borrowings		(1,769)	(694)
Proceeds from new shareholder borrowings, net of associated expenses		1,184	–
Interest paid on policyholder borrowings		(17)	(18)
Interest paid on shareholder borrowings		(67)	(136)
Arrangement and structuring fees associated with the re-terming of the Impala loan facility		–	(21)
Net cash flows from financing activities		(789)	(803)
Net (decrease)/increase in cash and cash equivalents		(4,227)	209
Cash and cash equivalents at the beginning of the year		9,294	9,085
Cash and cash equivalents at the end of the year	37	5,067	9,294

Separate disclosure of the cash flows relating to discontinued operations is provided in note 4.1.2.

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital (note 16) £m	Share premium £m	Shares held by the employee benefit trust and	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 20) £m	Total £m

			Group entities (note 18) £m					
At 1 January 2014	–	1,097	(13)	93	732	1,909	778	2,687
Profit for the year	–	–	–	–	310	310	96	406
Other comprehensive income for the year	–	–	–	10	251	261	–	261
Total comprehensive income for the year	–	–	–	10	561	571	96	667
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	1	–	1
Dividends paid on ordinary shares	–	(120)	–	–	–	(120)	–	(120)
Dividends paid on shares held by the employee trust and Group entities	–	1	–	–	–	1	–	1
Dividends paid to non-controlling interests	–	–	–	–	–	–	(22)	(22)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	(21)	(21)
Credit to equity for equity-settled share-based payments	–	–	–	–	7	7	–	7
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	82	82
Shares distributed by employee trust	–	–	10	–	(10)	–	–	–
Shares acquired by employee trust	–	–	(8)	–	–	(8)	–	(8)
Shares sold by Group entities	–	–	3	–	1	4	–	4
At 31 December 2014	–	979	(8)	103	1,291	2,365	913	3,278

	Share capital (note 16) £m	Share premium £m	Other reserves (note 17) £m	Shares held by the employee benefit trust and Group entities (note 18) £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note 20) £m	Total £m
At 1 January 2013	–	982	5	(10)	85	596	1,658	724	2,382
Profit for the year	–	–	–	–	–	145	145	62	207
Other comprehensive income/(expense) for the year	–	–	–	–	8	(12)	(4)	–	(4)
Total comprehensive income for the year	–	–	–	–	8	133	141	62	203
Issue of ordinary share capital, net of associated commissions and expenses	–	233	–	–	–	–	233	–	233
Dividends paid on ordinary shares	–	(120)	–	–	–	–	(120)	–	(120)
Dividends paid on shares held by the employee trust and Group entities	–	2	–	–	–	–	2	–	2
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(25)	(25)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(20)	(20)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	6	6	–	6
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	–	37	37
Shares distributed by employee trust	–	–	–	8	–	(8)	–	–	–
Shares acquired by employee trust	–	–	–	(11)	–	–	(11)	–	(11)
Expired contingent rights	–	–	(5)	–	–	5	–	–	–
At 31 December 2013	–	1,097	–	(13)	93	732	1,909	778	2,687

Phoenix Group Holdings is subject to Cayman Islands Companies Law. Under Cayman Islands Companies Law distributions can be made out of profits or share premium subject, in each case, to a solvency test. The solvency test is broadly consistent with the Group's going concern assessment criteria.

Retained earnings comprise the owners' interest in the post acquisition retained earnings of the subsidiary companies and the retained earnings of the Company. Distribution of retained earnings held within the long-term business funds and surplus assets held within the owners' funds of the life companies is subject to retaining sufficient funds to protect policyholders' interests.

FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2014 comprise the financial statements of Phoenix Group Holdings ('the Company') and its subsidiaries (together referred to as 'the Group').

The consolidated financial statements have been prepared on a historical cost basis except for investment property, owner-occupied property and those financial assets, financial liabilities and insurance and investment contracts with discretionary participation features ('DPF') that have been measured at fair value.

Statement of compliance

The consolidated financial statements have been prepared, in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'). The basis of preparation has been amended from IFRSs adopted for use in the European Union to IFRSs issued by the IASB effective from 1 January 2014 (see note 2).

The financial statements are presented in sterling (£) rounded to the nearest million except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by an IFRS or interpretation, as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings including collective investment schemes where the Group exercises overall control. In accordance with the principles set out in IFRS 10 *Consolidated Financial Statements*, the Group controls an investee if and only if the Group has all the following:

– power over the investee;
– exposure, or rights, to variable returns from its involvement with the investee; and
– the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including relevant activities, substantive and protective rights, voting rights and purpose and design of an investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries

Subsidiary undertakings are consolidated from the date that effective control is obtained by the Group and are excluded from consolidation from the date they cease to be subsidiary undertakings. For subsidiary undertakings disposed of during the year, any difference between the net proceeds, plus the fair value of any retained interest, and the carrying amount of the subsidiary undertaking including non-controlling interests, is recognised in the consolidated income statement.

The Group uses the purchase method to account for the acquisition of subsidiary undertakings. The cost of an acquisition is measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired is recognised as goodwill. Any excess of the fair value of the net assets acquired over the cost of acquisition is recognised in the consolidated income statement. Directly attributable acquisition costs are included within administrative expenses, except for acquisitions undertaken prior to 2010 when they are included within the cost of the acquisition. Costs directly related to the issuing of debt or equity securities are included within the initial carrying amount of debt or equity securities where these are not carried at fair value. Intra-group balances and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Non-controlling interests are stated at the share of net assets attributed to the non-controlling interest holder, adjusted for the relevant share of subsequent changes in equity.

Collective investment schemes

The Group has invested in a number of collective investment schemes such as Open-ended Investments Companies ('OEICs'), unit trusts, Société d'Investissement à Capital Variable ('SICAVs') and private equity funds. These invest mainly in equities, bonds, property and cash and cash equivalents. The Group's percentage ownership in these collective investment schemes can fluctuate according to the level of Group and third party participation in structures.

For such collective investment schemes, the following circumstances may indicate, in substance that the Group has power over an investee:

– where the investee is managed by asset managers outside the Group, the Group has existing substantive rights (such as power of veto and liquidation rights) that give it the ability to direct the current activities of the investee. In assessing the Group's ability to direct an investee the Group considers its ability relative to other investors
– the investee is managed by the Group's assets manager, prior to its disposal, and the Group holds a significant investment in the investee. It is generally presumed that the Group has rights to variable returns and has the ability to use its power to affect its returns where the Group's holding is greater than 50%. For holdings between 25% and 50% the Group performs an assessment of power and associated control on a case by case basis. This assessment includes establishing the nature of the decision making rights that the asset manager has over the investee and whether these rights give it the power to control the investee.

Where Group companies are deemed to control such collective investment schemes they are consolidated in the Group financial statements, with the interests of external third parties recognised as a liability, see policy (j) 'Net asset value attributable to unitholders'.

Certain of the collective investment schemes have non-coterminous period ends and are consolidated on the basis of additional financial statements prepared to the period end.

(b) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are the measurement of insurance and investment contract liabilities, determination of the fair value of financial assets and liabilities, impairment tests for intangible assets, income tax assets and liabilities and pension scheme assets and liabilities. The consolidation of collective investment schemes requires management to make judgements which are critical to the consolidation process.

Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in accounting policies (e) and (f) with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note 40.

Fair value of financial assets and liabilities

Financial assets and liabilities are measured at fair value and accounted for as set out in accounting policies (r) and (g) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued using valuation techniques based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates. Further details of the estimates made are included in note 34.

Impairment of intangible assets

Intangible assets are subject to regular impairment reviews as detailed in accounting policy (n). Impairments are measured as the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the consolidated income statement in the period in which they occur. Further details of judgements made in testing intangible assets for impairment are included in note 31.

Income tax assets and liabilities

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. Forecasts of future profitability are made which by their nature involve management's judgement.

The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets.

The determination of tax provisions included in current tax liabilities involves the use of estimates and judgements.

The accounting policy for income taxes (both current and deferred) is discussed in more detail in accounting policy (l).

Pension scheme assets and liabilities

The valuation of pension scheme assets and liabilities is determined using actuarial valuations that include a number of assumptions. As defined benefit pension schemes are long-term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 30.

Consolidation of collective investment schemes

Collective investment schemes are consolidated where it is determined that the Group controls the investee. Such an assessment requires the application of judgement with regard to the factors discussed in note 1(a) 'Basis of consolidation'.

Operating profit

Operating profit is the Group's non-GAAP measure of performance. The Group is required to make judgements as to the appropriate longer-term rates of investment return for the determination of operating profit, as detailed in note 6.3, and as to what constitutes an operating or non-operating item in accordance with the accounting policy detailed in note 1(v).

(c) FOREIGN CURRENCY TRANSACTIONS

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the period end;
- income, expenses and cash flows denominated in foreign currencies are translated at average exchange rates; and
- all resulting exchange differences are recognised through the statement of consolidated comprehensive income.

Foreign currency transactions are translated into the functional currency of the transacting Group entity using exchange rates prevailing at the date of translation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value through profit or loss are included in foreign exchange gains and losses. Translation differences on non-monetary items at fair value through profit or loss are reported as part of the fair value gain or loss.

(d) CLASSIFICATION OF CONTRACTS

Contracts under which the Group accepts significant insurance risk are classified as insurance contracts.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a DPF. This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

(e) INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF

Under current IFRS requirements the Group's insurance contracts and investment contracts with DPF are measured using accounting policies consistent with those previously adopted under UK GAAP. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Insurance liabilities

Insurance contract liabilities for non-participating business, other than unit-linked insurance contracts, are calculated on the basis of current data and assumptions, using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for on individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

For unit-linked insurance contract liabilities the provision is based on the fund value, together with an allowance for any excess of future expenses over charges, where appropriate.

For participating business, the liabilities under insurance contracts and investment contracts with DPF are calculated in accordance with the following methodology:

- liabilities to policyholders arising from the with-profit business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The with-profit bonus reserve for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method. The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends.

The realistic liability for any contract is equal to the sum of the with-profit bonus reserve and the cost of future policy-related liabilities.

Where policyholders have valuable guarantees, options or promises in respect of the with-profit business, these costs are generally valued using a stochastic model.

In calculating the realistic liabilities, account is taken of the future management actions consistent with those set out in the Principles and Practices of Financial Management ('PPFM').

Present value of future profits on non-participating business in the with-profit funds

For UK with-profit life funds, an amount may be recognised for the present value of future profits ('PVFP') on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value.

Where the value of future profits can be shown to be due to policyholders, this amount is recognised as a reduction in the liability rather than as an intangible asset. This is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus.

Where it is not possible to apportion the future profits on this non-participating business to policyholders, the PVFP on this business is recognised as an intangible asset and changes in its value are recorded as a separate item in the consolidated income statement.

The value of the PVFP is determined in a manner consistent with realistic measurement of liabilities. In particular, the methodology and assumptions involve adjustments to reflect risk and uncertainty, are based on current estimates of future experience and current market yields and allow for market consistent valuation of any guarantees or options within the contracts. The value is also adjusted to remove the value of capital backing the non-profit business if this is included in the realistic calculation of PVFP. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 40.

Embedded derivatives

Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss.

Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged to the consolidated income statement.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 *Insurance Contracts*, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the consolidated income statement.

Unallocated surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with-profit business of the Group's life operations. For the Group's with-profit funds this represents amounts which have yet to be allocated to owners since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts.

If the realistic value of liabilities to policyholders exceeds the value of the assets in the with-profit fund, the unallocated surplus is valued at £nil.

(f) INVESTMENT CONTRACTS WITHOUT DPF

Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the statement of consolidated financial position as an adjustment to the liability to the policyholder.

The valuation of liabilities on unit-linked contracts is held at fair value of the related assets and liabilities. The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Movements in the fair value of investment contracts without DPF are included in the 'change in investment contract liabilities' in the consolidated income statement.

(g) FINANCIAL LIABILITIES

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts and other liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method. Financial liabilities are designated upon initial recognition at fair value through profit or loss and where doing so results in more meaningful information because either:

- it eliminates or significantly reduces accounting mismatches that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated and managed on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the investments is provided internally on that basis to the Group's key management personnel.

Warrants issued by the Company are recognised as a financial liability unless they can be exchanged for a fixed number of the Company's own shares, or meet the definition of equity-settled share-based payments, in which case they are recognised as equity.

(h) BORROWINGS

The majority of interest bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the consolidated income statement over the period of the borrowing using the effective interest method.

Certain borrowings are designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reasons stated above in the financial liabilities accounting policy. Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

(i) DEPOSITS FROM REINSURERS

It is the Group's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'deposits received from reinsurers' in the statement of consolidated financial position.

(j) NET ASSET VALUE ATTRIBUTABLE TO UNITHOLDERS

The net asset value attributable to unitholders represents the non-controlling interest in collective investment schemes which are consolidated by the Group. This interest is classified at fair value through profit or loss and measured at fair value, which is equal to the bid value of the number of units of the collective investment scheme not owned by the Group.

(k) OBLIGATIONS FOR REPAYMENT OF COLLATERAL RECEIVED

It is the Group's practice to obtain collateral in stock lending and derivative transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'obligations for repayment of collateral received' in the statement of consolidated financial position. The 'obligations for repayment of collateral received' are measured at amortised cost, which in the case of cash is equivalent to the fair value of the consideration received.

(l) INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the statement of consolidated comprehensive income or the statement of consolidated changes in equity, in which case it is recognised in these statements.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of consolidated financial position together with adjustments to tax payable in respect of previous years.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year.

(m) EMPLOYEE BENEFITS

Defined contribution pension schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

Defined benefit pension schemes

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by Group entities to the defined benefit pension schemes (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contract liabilities and investment contract liabilities.

As required by IFRIC 14, IAS 19 –The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, to the extent that the economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally under IFRIC 14 pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the scheme, a liability is recognised when the obligation arises. The net defined benefit asset/liability represents the economic surplus net of all adjustments noted above.

The Group determines the net interest expense or income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/liability. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The movement in the net defined benefit asset/liability is analysed between the service cost, past service cost, curtailments and settlements (all recognised within administrative expenses in the consolidated income statement), the net interest cost on the net defined benefit asset/liability, including any reimbursement assets (recognised within net investment income in the consolidated income statement), remeasurements of the net defined
asset/liability (recognised in other comprehensive income) and employer contributions.

(n) INTANGIBLE ASSETS

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured on initial recognition at cost. Following
initial recognition, goodwill is stated at cost less any accumulated impairment losses. It is tested for impairment annually or when there is evidence of possible impairment. Goodwill is not amortised. For impairment testing, goodwill is allocated to cash generating units (Phoenix Life and Ignis). Goodwill is impaired when the recoverable amount is less than the carrying value.

Acquired in-force business

Insurance and investment contracts with and without DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts is recognised as acquired in-force business.

Acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in force business is also considered in the liability adequacy test for each reporting period.

Customer relationships

Intangible assets include vesting pension premiums and investment management contracts as detailed in note 31. These are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised on a straight-line basis over their useful economic lives and assessed for impairment whenever there is an indication that the recoverable amount of the intangible asset is less than its carrying value.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised.

(o) PROPERTY, PLANT AND EQUIPMENT

Owner-occupied property is stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. Owner-occupied property is depreciated over its estimated useful life, which is taken as 50 years, except where the residual value is greater than its carrying value in which case no depreciation is charged to profit or loss. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of consolidated comprehensive income.

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives.

(p) INVESTMENT PROPERTY

Investment property is stated at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Gains and losses arising from the change in fair value are recognised in the consolidated income statement.

(q) INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Interests in Associates* and IFRS 11 *Joint Arrangements*. These are measured at fair value through profit or loss. There are no investments in associates and joint ventures which are of a strategic nature.

(r) FINANCIAL ASSETS

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are remeasured to fair value. The gain or loss on remeasurement to fair value is recognised in the consolidated income statement.

Equities, fixed and variable rate income securities and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the statement of consolidated financial position at fair value. They are designated at fair value through profit or loss because this is reflective of the manner in which they are managed and the risks are evaluated.

Impairment of financial assets

The Group assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Group first assesses whether objective evidence of impairment exists. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in the collective assessment of impairment.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the applicable bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

Stock lending

Financial assets that are lent under the Group's stock lending programme do not qualify for derecognition from the statement of consolidated financial position as the Group retains substantially all the risks and rewards of the transferred assets.

Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the Group has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of consolidated financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of consolidated financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Non-cash collateral pledged where the Group retains the contractual rights to receive the cash flows generated is not derecognised from the statement of consolidated financial position, unless the Group defaults on its obligations under the relevant agreement. Cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, is derecognised from the statement of consolidated financial position and a corresponding receivable is recognised for its return.

(s) REINSURANCE

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance providers. Reinsurers' share of insurance contract liabilities is dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recognised in the consolidated income statement. The reinsurers' share of investment contract liabilities is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

Reinsurance premiums payable in respect of certain reinsured individual and group pensions annuity contracts are payable by quarterly instalments. Due to the period of time over which reinsurance premiums are payable under these arrangements, the reinsurance premiums and related payables are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as a charge within the consolidated income statement.

Gains or losses on purchasing reinsurance are recognised in the consolidated income statement at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

(t) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are deducted from cash and cash equivalents for the purpose of the statement of consolidated cash flows.

(u) PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group has a present legal or constructive obligation, but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(v) OPERATING PROFIT

The Group has chosen to report a non-GAAP measure of performance being operating profit. Operating profit is considered to provide a comparable measure of the underlying performance of the Group's business as it excludes the impact of short term economic volatility and other one-off items. This measure incorporates an expected return, including a longer term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Group's core operating activities (for example, actuarial modelling enhancements and data reviews).

Impacts arising from the difference between the actual and expected experience for economic items (on both assets and liabilities) and the impacts of changes in economic assumptions on the valuation of liabilities are excluded from operating profit and are presented in profit before the tax attributable to owners.

Operating profit also excludes the impact of the following items:

- amortisation and impairments of intangible assets;
- finance costs attributable to owners;
- gains or losses on the disposal or remeasurement of subsidiaries, associates or joint ventures (net of related costs of disposal);
- the financial impacts of mandatory regulatory change in the year of first-time recognition;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

(w) EARNINGS PER SHARE

Basic earnings per share is calculated using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the year.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, including warrants and potentially issuable ordinary shares.

(x) DIVIDENDS

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's owners. Interim dividends are deducted from equity when they are paid. As permitted by Cayman Islands Companies Law, dividends have been charged within equity against the share premium account and other reserves account. Where shareholders exercise a scrip dividend option, the amount of the related dividend is credited to share premium in the statement of consolidated changes in equity and an amount equal to the nominal value of the shares issued is transferred from share premium to share capital.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(y) INCOME RECOGNITION

Gross premiums

In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Group are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis.

Fee and commission income

Fee and commission income relates to the following:

- fund management based fees, which are recognised as the services are provided;
- investment contract income – investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided; and
- other fees, which are recognised as the services are provided.

Net investment income

Net investment income comprises interest, dividends, rents receivable, net interest income/expense on the net defined benefit asset/liability, fair value gains and losses on financial assets and investment property at fair value and impairment losses on loans and receivables.

Interest income is recognised in the consolidated income statement as it accrues using the effective interest method.

Dividend income is recognised in the consolidated income statement on the date the right to receive payment is established, which in the case of listed securities is the ex-dividend date.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

Lease incentives granted are recognised as an integral part of the total rental income.

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised in the consolidated income statement. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

Other operating income

Other operating income comprises the general business result and other non-investment income which is recognised on an accruals basis.

(z) BENEFITS, CLAIMS AND EXPENSES RECOGNITION

Gross benefits and claims

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in-force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Share-based payments

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 19.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

Finance costs

Interest payable is recognised in the consolidated income statement as it accrues and is calculated using the effective interest method.

(aa) SHARE CAPITAL AND SHARES HELD BY THE EMPLOYEE BENEFIT TRUST AND GROUP ENTITIES

Ordinary share capital

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

Shares held by the employee benefit trust and Group entities

Where an employee trust or other Group entity acquires shares in the Company or obtains rights to purchase its shares, the consideration paid (including any attributable transaction costs, net of tax) is shown as a deduction from owners' equity. Gains and losses on sales of shares held by the employee trust and Group entities are charged or credited to the own shares account in equity.

(bb) DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

– represents a separate major line of business; and
– is part of a coordinated plan to dispose of a separate line of business.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated income statement and statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

Non-current assets or disposal groups are classified separately as held for sale in the balance sheet when their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition, and management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Liabilities directly associated with the assets classified as held for sale and expected to be included as part of the sale transaction are correspondingly also classified separately. The net assets and liabilities of a disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

(cc) LEASES

Where a significant element of the risks and rewards of title to the asset is retained by the lessor, such leases are treated as operating leases. Property leased out by the Group under operating leases are included in investment property, rental income from such leases is recognised as income in the statement of comprehensive income on a straight line basis over the period of the lease.

(dd) GENERAL BUSINESS

The general insurance business has been closed to new business for a number of years and is in run-off. The results are included within other operating income in the consolidated income statement. Provisions are made for the estimated cost of claims, including claims incurred but not reported after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provision and subsequent settlement is included in the consolidated income statement.

(ee) SEGMENTAL REPORTING

The Group's results are analysed across two reportable segments: Phoenix Life and Ignis. The revenues generated in each reported segment are shown in the segmental information in note 5.

There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments. A reconciliation between the reported segment revenues and expenses and the Group's revenues and expenses is shown in note 5.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so.

(ff) EVENTS AFTER THE REPORTING PERIOD

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

2. FINANCIAL INFORMATION

The consolidated financial statements for the year ended 31 December 2014, set out on pages 97 to 189, were authorised by the Board of Directors for issue on 17 March 2015.

The basis of preparation for the Group's consolidated financial statements has been amended from IFRSs adopted for use in the European Union to IFRSs issued by the IASB, effective from 1 January 2014.

As a result of adopting this new basis of preparation in 2014, the following standards and amendments have been adopted by the Group with an initial application date of 1 January 2014.

- IFRS 10 *Consolidated Financial Statements* (2013) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The impact of the adoption of the new standard and the effect on amounts previously reported at 31 December 2013 is set out in note 3.
- IFRS 11 *Joint Arrangements* (2013) establishes principles for financial reporting by parties to a joint arrangement. The standard distinguishes between two types of joint arrangements, joint ventures and joint operations. The adoption of IFRS 11 results in the presentation of a property investment structure as an investment in joint ventures within financial assets (previously disclosed as an equity investment). As a result of the Group's accounting policy to value interests in joint ventures at fair value through profit or loss there has been no change in the measurement basis.
- IFRS 12 *Disclosure of Interests in Other Entities* (2013) combines, enhances and replaces the disclosure requirements for all forms of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of IFRS 12 has resulted in additional disclosures in respect of these interests. The standard has been applied retrospectively with disclosure for the comparative period. The additional disclosures are included in notes 1 (a), 4, 20, 35 and 45.
- IAS 28 *Investments in Associates and Joint Ventures* (Revised) (2013). This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. There are no impacts on the consolidated financial statements as a result of these amendments.

In addition, in preparing the consolidated financial statements, the Group has adopted the following amendments to standards and new interpretations issued by the IASB effective from 1 January 2014:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (2014). The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities, specifically the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The application has had no impact on the disclosures or amounts recognised in the consolidated financial statements.
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 *Impairment of Assets*) (2014). Modifications to the disclosures required by IAS 36 have been made as a result of the requirements of IFRS 13. These amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period. The adoption of these amendments has not required any additional disclosures in the consolidated financial statements.
- IFRIC 21 *Levies* (2014). IFRIC 21 clarifies when to recognise a liability for a levy imposed by government in accordance with legislation (other than taxes and fines or other penalties). The adoption of this interpretation has had no impact on the consolidated financial statements.

The IASB has issued the following new or amended standards and interpretations which apply from the dates shown. The Group has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact on the Group of adopting them is subject to evaluation:

- IFRS 9 *Financial Instruments* (2018). This standard will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 was originally issued in November 2009 and introduced new requirements for the classification and measurement of financial assets. The standard was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include new requirements for general hedge accounting. Another revised version was issued in July 2014 to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' option for certain simple debt instruments. The Group anticipates that the application of IFRS 9 in the future is likely to impact amounts reported in respect of the Group's financial assets and liabilities although this remains subject to completion of a detailed review.
- IFRS 15 *Revenue from Contracts with Customers* (2017). IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to insurance contracts and the Group anticipates that the application of IFRS 15 in the future is likely to have limited impact on amounts reported in respect of the Group's financial statements.
- Annual Improvements to IFRS 2010-2012 cycle (1 July 2014). This makes a number of minor improvements to existing standards and interpretations.
- Annual Improvements to IFRS 2011-2013 cycle (1 July 2014).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (2016).

In addition, the following standards, interpretations and amendments have been issued but are not currently relevant to the Group:

- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 Financial Instruments: Recognition and Measurement) (2014).
- Defined Benefit Plans: Employee Contributions

(Amendments to IAS 19) (1 July 2014).

– Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) (2016).
– IFRS 14 Regulatory Deferral Accounts (2016).
– Agriculture: Bearer Plants
(Amendments to IAS 16 and IAS 41) (2016).

3. CHANGE IN ACCOUNTING POLICIES AND PRESENTATIONAL CHANGES

This note details the impacts on the consolidated financial statements as a result of changes in accounting policies during the year and presentational changes of prior year financial information.

(a) IFRS 10

The Group has adopted IFRS 10 *Consolidated Financial Statements* for the first time in its 2014 financial statements.

As a result of the Group changing its basis of preparation to IFRS issued by the IASB, the effective date of application of IFRS 10 by the Group is now 1 January 2013.

IFRS 10 replaces the parts of the previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*, and establishes a single control model that applies to all entities including special purpose entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group controls an investee if and only if the Group has all the following:

– power over the investee;
– exposure, or rights, to variable returns from its involvement with the investee; and
– the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: relevant activities, substantive and protective rights, voting rights and purpose and design of an investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The Group is invested in a number of collective investment schemes which in turn invest in a range of financial assets. The Group's percentage ownership in these collective investment schemes can fluctuate according to the Group and third party participation in them. When assessing the control over these collective investment schemes the Group considers the scope of its decision making authority including its ability to direct the relevant activities of the fund, powers of veto and exposure to variability of returns. The Group also assesses substantive removal rights that may affect the Group's ability to direct the relevant activities.

The following table summarises the financial effects on the consolidated income statement, statement of consolidated financial position and statement of consolidated cash flows on implementation of the new accounting policy.

	Year ended 31 December 2013 £m
Consolidated income statement	
Net investment income	81
Other operating income	(1)
Administrative expenses	(1)
Net income attributable to unitholders	(79)
Profit for the period	–
Statement of consolidated financial position	
Total assets:	
Derivatives	18
Equities	2,602
Investment in joint ventures	125
Fixed and variable rate income securities	198
Collective investment schemes	(2,623)
Cash and cash equivalents	70
Prepayments and Accrued Income	2
Other receivables	4
Total assets	396
Total liabilities:	
Derivatives	5
Net asset value attributable to unitholders	435
Other payables	(44)
Total liabilities	396

(b) OTHER PRESENTATIONAL CHANGES OF PRIOR YEAR FINANCIAL INFORMATION

In respect of the 2013 financial year, a presentational change has been made to fees and net investment income within the consolidated income statement to remove the impact of a gross-up of those line items for asset management fee rebates received by the Group's life companies. The impact of the adjustment is to reduce fees by £39 million and increase net investment income by an equivalent amount. There is no impact on the result for the year (see note 9).

The impact of presentational changes made in respect of discontinued operations is detailed in note 4.1.

4. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

This note provides details of the discontinued operations and divestment of Ignis Asset Management, assets and liabilities held for sale at the year end and the disposal of a general insurance subsidiary undertaking. The principle accounting policies adopted in the preparation of this note are detailed in notes 1(a), 1(bb) and 1(dd).

4.1 DISCONTINUED OPERATIONS

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

As part of the divestment, the Group agreed to a purchase price adjustment for a period of 10 years from the date of the divestment in the event that assets held by the Life companies are withdrawn from management by Ignis, other than for specific reasons such as poor investment performance or for material breaches of investment management contracts. Management has determined that no obligation should be recognised under this mechanism as at 31 December 2014.

4.1.1 Results of discontinued operations

The results of Ignis are as follows:

	2014 £m	2013 £m
Fees	26	48
Net investment income	(6)	7
Total revenue	20	55
Amortisation of customer relationships	–	(3)
Administrative expenses	(47)	(103)
Total operating expenses	(47)	(106)
Loss before tax	(27)	(51)
Attributable tax credit	9	16
	(18)	(35)
Gain on disposal of discontinued operations	107	–
Attributable tax credit	3	–
	110	–
Profit/(loss) for the year from discontinued operations	92	(35)
Loss per share		
Basic loss per share from discontinued operations	(8.2)p	(17.1)p
Diluted loss per share from discontinued operations	(8.2)p	(17.1)p

The loss before tax for the period from discontinued operations excludes intra-group fee income of £38 million (year ended 31 December 2013: £102 million). This intra-group fee income represents the difference between the result before tax for the period from discontinued operations (excluding the gain on disposal and attributable tax credit) and the Ignis segmental result before tax attributable to owners results shown in note 5.1 and reflects the income earned by Ignis on managed assets of the Group's life companies.

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

The gain on disposal of discontinued operations is as follows:

	2014 £m
Net consideration received, satisfied in cash	384
Less: net assets and liabilities disposed of	(254)
Less: transaction costs	(5)
Less: capitalised VAT costs	(18)
Add: tax credit on irrecoverable VAT	3
Gain on disposal (net of tax)	110

4.1.2 Cash flows generated by discontinued operations

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

	2014 £m	2013 £m
Cash flows from operating activities	31	17
Cash flows from investing activities	311	–
Cash flows from financing activities	(29)	(14)
Net cash inflow	313	3

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

4.1.3 Effect of disposal on the financial position of the Group

	2014 £m
Goodwill	57
Customer relationships and other intangibles	136
Financial assets	37
Property, plant and equipment	10
Cash and cash equivalents	68
Deferred tax assets	3
Other assets	53
Deferred tax liabilities	(27)
Provisions	(23)
Other liabilities	(60)
Net assets and liabilities disposed of	254

4.2 ASSETS AND LIABILITIES OF OPERATIONS CLASSIFIED AS HELD FOR SALE

The balances transferred to assets and liabilities classified as held for sale in the statement of consolidated financial position as at 31 December 2014 relate to the anticipated Part VII transfer of a portfolio of annuity liabilities to Guardian Assurance Limited ('Guardian') (see note 4.3). The balances as at 31 December 2013 related to BA(GI) Limited ('BAGI') (see note 4.4).

	2014 £m	2013 £m
Assets classified as held for sale:		
Financial assets	–	55
Reinsurer's share of insurance contract liabilities	1,713	–
Other assets	–	11
	1,713	66
Liabilities classified as held for sale:		
Liabilities under insurance contracts	1,776	–
Payables related to direct insurance contracts	–	48
Other liabilities	–	1
	1,776	49

4.3 ANNUITY LIABILITIES TRANSFER

On 31 July 2014, the Group entered into a reinsurance agreement, effective from 1 January 2014 to reinsure certain portfolios of the Group's annuity liabilities to Guardian in exchange for the transfer of financial assets of £1.7 billion. The annuity in-payment liabilities are currently held in the Group's with-profit funds. It is highly probable that the reinsurance agreement will be replaced by a formal scheme under Part VII of the Financial Services and Market Act 2000 to transfer the annuity liabilities to Guardian in the second half of 2015 and accordingly the assets and liabilities to be transferred have been classified as held for sale.

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

Under the terms of this reinsurance agreement Guardian holds assets in a collateral account over which the Group has a fixed charge as disclosed in note 7.2.

In 2012 the Group entered into a reinsurance agreement, effective 1 July 2012, to reinsure certain portfolios of the Group's annuity liabilities held within the non-profit funds to Guardian in exchange for the transfer of financial assets of £5.1 billion. The business was transferred to Guardian on 30 September 2013 using a Part VII transfer which was approved by the High Court on 12 September 2013.

As part of the Part VII transfer, the Group paid £78 million consideration to Guardian in connection with the ongoing servicing of the transferred policies. Net liabilities disposed of were £143 million and the Group recognised a gain on transfer of £65 million, comprising £42 million within gain on transfer of business and £23 million within tax charge attributable to owners in the consolidated income statement for the year ending 31 December 2013.

4.4 DISPOSAL OF BAGI

The Group completed the sale of its entire interest in BAGI to National Indemnity Company on 18 March 2014 for cash consideration of £21 million. The carrying value of the net assets transferred was £17 million, resulting in a pre-tax gain of £4 million. Asset and liabilities classified as held for sale as at 31 December 2013 are no longer included in the consolidated statement of financial position.

5. SEGMENTAL ANALYSIS

The Group defines and presents operating segments based on the information which is provided to the Board, and therefore segmental information in this note is presented on a different basis from profit or loss in the consolidated financial statements. The accounting policy adopted in the preparation of this note is detailed in note 1(ee).

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

For management purposes, the Group is organised into business units based on their products and services and has two operating segments as follows:

- Phoenix Life – this segment provides a range of whole life, term assurance and pension products; and
- Ignis – this segment provided investment management services to the life companies within the Group and to third parties, covering both retail and institutional investors. The segment has been disposed of effective from 1 July 2014 (see note 4.1).

Segment performance is evaluated based on profit or loss which, in certain respects, is presented differently from profit or loss in the consolidated financial statements. Group financing (including finance costs) and owners' taxes are managed on a Group basis and are not allocated to individual operating segments.

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

Predominantly all revenues from external customers are sourced in the UK.

Predominantly all non-current assets are located in the UK.

No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

5.1 SEGMENTAL RESULT

2014

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

2013 Restated

	Phoenix Life £m	Ignis £m	Unallocated Group £m	Eliminations £m	Discontinued operations eliminations £m	Total £m
Net premiums written from:						
External customers	1,344	–	–	–	–	1,344
Fees from:						
External customers	93	48	–	–	(48)	93
Other segment	–	102	–	(102)	–	–
	93	150	–	(102)	(48)	93
Net investment income:						
Recurring	2,787	–	(1)	–	–	2,786
Non-recurring	–	7	–	–	(7)	–
	2,787	7	(1)	–	(7)	2,786
Other operating income:						
Recurring	7	–	–	–	–	7

Gain on transfer of business:						
Non-recurring	42	–	–	–	–	42
Net income	4,273	157	(1)	(102)	(55)	4,272
Net policyholder claims and benefits incurred:						
Recurring	(1,742)	–	–	–	–	(1,742)
Depreciation, impairment and amortisation:						
Depreciation of property, plant and equipment	–	(3)	–	–	3	–
Amortisation of acquired in-force business	(111)	–	–	–	–	(111)
Amortisation of customer relationships and other intangibles	(16)	(3)	–	–	3	(16)
	(127)	(6)	–	–	6	(127)
Other operating expenses:						
Recurring	(2,010)	(98)	13	102	98	(1,895)
Non-recurring	(11)	(2)	(26)	–	2	(37)
	(2,021)	(100)	(13)	102	100	(1,932)
Total operating expense	(3,890)	(106)	(13)	102	106	(3,801)
Profit/(loss) before finance costs and tax	383	51	(14)	–	51	471
Finance costs						
Recurring	(95)	–	(114)	–	–	(209)
Non-recurring	–	–	(21)	–	–	(21)
	(95)	–	(135)	–	–	(230)
Profit/(loss) before tax	288	51	(149)	–	51	241
Tax attributable to policyholders' returns	27	–	–	–	–	27
Segmental result before the tax attributable to owners	315	51	(149)	–	51	268

5.2 RECONCILIATION OF OPERATING PROFIT BEFORE ADJUSTING ITEMS TO THE SEGMENTAL RESULT

2014

	Phoenix Life £m	Ignis £m	Unallocated Group £m	Total £m
Operating profit/(loss) before adjusting items	487	17	(21)	483
Investment return variances and economic assumption changes on long-term business	12	–	–	12
Variance on owners' funds	(8)	–	(6)	(14)
Amortisation of acquired in-force business	(88)	–	–	(88)
Amortisation of customer relationships	(15)	–	–	(15)
Non-recurring items	(56)	(6)	188	126
Financing costs attributable to owners	(23)	–	(65)	(88)
Segmental result before the tax attributable to owners	309	11	96	416
Adjust for:				
Profit before the tax attributable to owners from discontinued operations (see note 4.1.1)				(80)
Profit before tax attributable to owners from continuing operations				336

Non-recurring items include:

- income received in relation to the close-out of the PGL Pension Scheme longevity agreement with the with-profit funds of £68 million (see note 30.2);
- the profit arising as a result of the divestment of Ignis of £107 million (see note 4.1);
- costs associated with external regulatory changes, including the cap on workplace pension charges of £17 million;
- corporate project costs of £15 million; and
- net other one-off items (including Solvency II implementation and systems transformation costs) totalling a cost of £17 million.

2013

	Phoenix Life £m	Ignis £m	Unallocated Group £m	Total £m
Operating profit/(loss) before adjusting items	414	49	(24)	439
Investment return variances and economic assumption changes on long-term business	64	–	–	64
Variance on owners' funds	(67)	–	36	(31)
Amortisation of acquired in-force business	(99)	–	–	(99)
Amortisation of customer relationships	(16)	(3)	–	(19)
Non-recurring items	31	5	(47)	(11)

Financing costs attributable to owners	(12)	–	(114)	(126)
Segmental result before the tax attributable to owners	315	51	(149)	217

Adjust for:	
Loss before the tax attributable to owners from discontinued operations (see note 4.1.1)	51
Profit before tax attributable to owners from discontinued operations	268

Non-recurring items include:

– arrangement and structuring fees of £21 million associated with the extinguishment and re-terming of the Impala loan facility;

– gain on transfer of business of £42 million (see note 4.3);

– regulatory change and systems transformation costs of £25 million;

– net settlement cost of pension liability management initiatives of £9 million (see note 30); and

– net other items of positive £2 million includes a gain on the reinsurance agreement with Guardian offset by corporate project costs.

6. 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. The accounting policy adopted in the calculation of operating profit is detailed in note 1(v) and the methodology is explained below.

6.1 LIFE ASSURANCE BUSINESS

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

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

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

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

	2014 £m	2013 £m
Investment return variances and economic assumption changes on long-term business	12	64

Positive investment return variances of £12 million in 2014 (2013: £64 million) include the minority share of the result of the consolidated UKCPT property investment structure of £75 million (2013: £42 million). The remaining negative variance of £63 million is principally driven by the impacts of falling yields, both on short asset positions held relative to the IFRS basis liabilities and from adverse policyholder tax variances arising on resultant investment gains on fixed interest assets in the period, together with the negative impact of widening credit spreads. Partly offsetting these items are the positive impacts of lower inflation and improved property returns.

6.2 OWNERS' FUNDS

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

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

	2014 £m	2013 £m
Variances on owners' funds of:		
Subsidiary undertakings	(19)	(29)
The Company	5	(2)
	(14)	(31)

The negative variance on owners' funds of £14 million for 2014 (2013: £31 million negative) is principally driven by fair value losses on swap and hedging positions held within the shareholder funds of the life companies. The reduction in the negative variance compared to 2013 reflects lower losses on equity index futures and credit default swaps compared to the prior year. The majority of interest rate swaps held by the shareholder funds and holding companies in relation to the Group's bank debt were closed out during 2013.

6.3 CALCULATION OF THE LONG-TERM INVESTMENT RETURN

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the start of each financial year. The long-term risk-free rate is defined as the annualised return on the FTSE UK Gilt Index plus 10 bps. 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:

	2014 %	2013 %
Equities	6.6	5.4
Properties	5.6	4.4
Gilts (15 year gilt)	3.6	2.4
Other fixed interest	4.6	3.4

7. REINSURANCE

7.1 PREMIUMS CEDED TO REINSURERS

Premiums ceded to reinsurers during the period were £1,792 million (2013: £11 million income).

On 31 July 2014, the Company entered into a business transfer agreement with Guardian (see note 4.3). The transfer has been initially effected under a reinsurance agreement effective from 1 January 2014.

In accordance with the business transfer agreement, it is intended that the reinsurance agreement will be replaced by a transfer of the business using a scheme under Part VII of the Financial Services and Markets Act 2000 during 2015 subject to the necessary regulatory and Court approvals. The Company paid a reinsurance premium of £1,736 million to Guardian. Under the terms of the agreement, in order to mitigate the risk of counterparty default, Guardian holds assets in a collateral account over which the Company has a fixed charge as disclosed in note 7.2.

7.2 COLLATERAL ARRANGEMENTS

It is the Group's practice to obtain collateral to mitigate the counterparty risk related to reinsurance transactions usually in the form of cash or marketable financial instruments. The accounting policy adopted in the preparation of this note is detailed in note 1(i).

Where the Group receives collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised in the statement of consolidated financial position. The fair value of financial assets accepted as collateral for reinsurance transactions but not recognised in the statement of consolidated financial position amounts to £3,829 million (2013: £1,881 million). The increase is largely driven by the business transfer agreement entered into with Guardian during the period over selected portfolios of the Group's annuity liabilities (see note 7.1).

Where the Group receives collateral on reinsurance transactions in the form of cash it is recognised in the statement of consolidated financial position along with a corresponding liability to repay the amount of collateral received, disclosed as 'Deposits received from reinsurers'. The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2014 are set out below.

	Reinsurance transactions	
	2014 £m	2013 £m
Financial assets	405	379
Financial liabilities	405	379

8. FEES

This note analyses the Group's fees and commission income. The accounting policy adopted in the preparation of this note is detailed in note 1(y).

	2014 £m	2013 Restated £m
Investment contract income	94	93

9. NET INVESTMENT INCOME

This note analyses the Group's net investment income. The accounting policy adopted in the preparation of this note is detailed in note 1(y).

	2014 £m	2013 Restated £m
Investment income		
Interest income on loans and receivables	4	11
Interest income on financial assets designated at fair value through profit or loss on initial recognition	1,156	1,348
Dividend income	1,098	1,005
Rental income	95	96
Net interest income/(expense) on Group defined benefit pension scheme asset/liability	4	(1)
	2,357	2,459
Fair value gains/(losses)		
Loans and receivables	1	10
Financial assets at fair value through profit or loss		
Designated upon initial recognition	2,333	560
Held for trading – derivatives	1,143	(315)
Investment property	200	72
	3,677	327
Net investment income	6,034	2,786

This note has been restated for the impacts of adopting IFRS 10 'Consolidated financial statements'. In addition, as part of the Group's investment systems transformation activities, the availability of enhanced analysis has identified that the prior year disclosures of certain investment income amounts are more appropriately reallocated between line items in the table above. The impact of this change on the 2013 comparative information is to decrease interest income on financial assets designated at fair value through profit and loss on initial recognition by £259 million, increase dividend income by £318 million, decrease fair value gains on financial assets at fair value through profit or loss designated upon initial recognition by £75 million and increase rental income by £16 million. There is no impact on the total 2013 net investment income balance as a result of these changes.

10. ADMINISTRATIVE EXPENSES

This note gives further detail on the items included within administrative expenses in the consolidated income statement and an analysis of which operating segment our employees work within.

	2014 £m	2013 £m
Employee costs	86	87
Outsourcer expenses	106	122
Professional fees	29	45
Office costs	23	27
Investment management expenses and transaction costs	122	97
Direct costs of life companies	9	8
Direct costs of collective investment schemes	26	35
Pension service costs and losses on settlement	–	10
Pension administrative expenses	7	7
Other	21	6
	429	444

Employee costs comprise:

	2014 £m	2013 £m
Wages and salaries	77	78
Social security contributions	9	9
	86	87

	2014 Number	2013 Number
Average number of persons employed		
Phoenix Life	757	807
Ignis[1]	–	393
	757	1,200

1 Following the divestment of Ignis, the employees within this segment of the business are no longer part of the Phoenix Group. Therefore no disclosure has been provided for the average number of persons employed in respect of Ignis for 2014.

11. AUDITOR'S REMUNERATION

This note shows the total remuneration payable by the Group to our auditors.

The remuneration of the Company's auditors, including their associates, in respect of services supplied to members of the Group was £5.1 million (2013: £7.6 million). No services were provided by the Company's auditors to the Group's pension schemes in either 2014 or 2013.

	2014 £m	2013 £m
Audit of the consolidated financial statements	0.5	0.5
Audit of the Company's subsidiaries	2.3	2.3
Audit of MCEV supplementary information	0.4	0.4
	3.2	3.2
Audit-related assurance services	0.8	0.7
Reporting accountant assurance services	0.2	1.0
Total fee for assurance services	4.2	4.9
Corporate finance services	0.6	2.7
Other non-audit services	0.3	–
Total fees for other services	0.9	2.7
Total auditor's remuneration	5.1	7.6

Total auditor's remuneration relates to continuing operations.

Audit-related assurance services includes fees payable for services where the reporting is required by law or regulation to be provided by the auditor, such as reporting on regulatory returns. It also includes fees payable in respect of reviews of interim financial information and services where the work is integrated with the audit itself.

Reporting accountant assurance services relate to assurance reporting on historical information included within investment circulars.

Corporate finance services of £0.6 million (2013: £2.7 million) primarily includes fees for services performed in association with the divestment of Ignis, where management concluded that significant efficiencies would arise as a result of engaging the Group's auditors to perform the work.

Other non-audit services of £0.3 million (2013: £nil) primarily includes fees payable in respect of a Solvency II preparedness review required in response to an industry-wide request from the Prudential Regulatory Authority.

12. FINANCE COSTS

This note analyses the interest costs on the Group's borrowings which are described in note 23 and is based upon the accounting policy detailed in note 1(z).

	2014 £m	2013 Restated £m
Interest expense		
On financial liabilities at amortised cost	141	195
On financial liabilities at fair value through profit or loss	15	35
	156	230
Attributable to:		
– policyholders	68	83
– owners	88	147
	156	230

13. TAX CHARGE/(CREDIT)

This note analyses the Group's tax credit and explains the factors that affect it. The accounting policy adopted in the preparation of this note is detailed in note 1(l).

13.1 CURRENT YEAR TAX CHARGE/(CREDIT) FROM CONTINUING OPERATIONS

	2014 £m	2013 Restated £m
Current tax:		
UK corporation tax	120	62
Overseas tax	18	14
	138	76
Adjustment in respect of prior years	(11)	(8)
Total current tax charge	127	68
Deferred tax:		
Origination and reversal of temporary differences	28	(62)
Change in the rate of UK corporation tax	(2)	(32)
Write (up)/down of deferred tax assets	(2)	25
Total deferred tax charge/(credit)	24	(69)
Total tax charge/(credit)	151	(1)
Attributable to:		
– policyholders	129	(27)
– owners	22	26
Total tax charge/(credit)	151	(1)

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge/(credit) attributable to policyholder earnings was £129 million (2013: £(27) million).

The tax credit for the year from discontinued operations is shown in note 4.1.

13.2 TAX (CREDITED)/CHARGED TO OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

	2014 £m	2013 £m
Current tax credit on share schemes	(2)	–
Deferred tax (credit)/charge on defined benefit schemes	(9)	12
	(11)	12

13.3 RECONCILIATION OF TAX CHARGE/(CREDIT) FROM CONTINUING OPERATIONS

	2014 £m	2013 Restated £m
Profit before tax	465	241
Policyholder tax (charge)/credit	(129)	27
Profit before the tax attributable to owners	336	268
Tax at standard UK[1] rate of 21.5% (2013: 23.25%)	72	63
Non-taxable income and gains	(6)	4
Disallowable expenses	7	6
Adjustment to shareholders' tax charge in respect of prior years	(16)	23
Movement on acquired in-force amortisation at less than 21.5% (2013: 23.25%)	2	–
Profits taxed at rates other than 21.5% (2013: 23.25%)	(21)	(39)
Recognition of previously unrecognised deferred tax assets	(19)	–
Deferred tax rate change	(7)	(33)
Temporary differences not valued	4	4
Other	6	(2)
Owners' tax charge	22	26
Policyholder tax charge/(credit)	129	(27)
Total tax charge/(credit) for the year	151	(1)

1 The Group's two operating segments operate predominantly in the UK. The reconciliation of the tax charge/(credit) has, therefore, been completed by reference to the standard rate of UK tax rather than by reference to the Jersey income tax rate of 0% which is applicable to Phoenix Group Holdings.

14. DIVIDENDS ON ORDINARY SHARES

This note analyses the total dividends paid during the year and does not include the final dividend proposed after the year end as it is not recognised as a liability in the 2014 consolidated financial statements. The accounting policy adopted in the preparation of this note is detailed in note 1(x).

	2014 £m	2013 £m
Dividends declared and paid in 2014	120	120

On 25 March 2014, the Board recommended a final dividend of 26.7p per share in respect of the year ended 31 December 2013. The dividend was approved at the Company's Annual General Meeting, which was held on 30 April 2014. The dividend amounted to £60 million and was settled on 2 May 2014.

On 20 August 2014, the Board declared an interim dividend of 26.7p per share for the half year ended 30 June 2014. The total dividend amounted to £60 million and was paid on 2 October 2014.

15. EARNINGS PER SHARE

This note shows how the Group calculates earnings per share based on the present shares in issue (basic earnings per share) and on the potential future shares in issue, including the conversion of share awards granted to employees (diluted earnings per share). The accounting policy adopted in the preparation of this note is detailed in note 1(w).

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

15.1 BASIC EARNINGS/(LOSS) PER SHARE

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

	2014 £m	2013 £m
Profit for the period	406	207
Share of result attributable to non-controlling interests	(96)	(62)
Profit attributable to owners of the parent	310	145
Analysed as:		
Profit attributable to owners of the parent from continuing operations	218	180
Profit/(loss) attributable to owners of the parent from discontinued operations	92	(35)

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

	2014 Number million	2013 Number million
Issued ordinary shares at beginning of the period	225	174
Effect of ordinary shares issued	1	39
Own shares held by employee benefit trust and Group entities	(1)	(1)
Weighted average number of ordinary shares	225	212

Basic earnings/(loss) per share is as follows:

	2014 pence	2013 pence
Basic earnings per share from continuing operations	96.7p	85.3p
Basic earnings/(loss) per share from discontinued operations	41.0p	(17.1)p
Total basic earnings per share	137.7p	68.2p

15.2 DILUTED EARNINGS/(LOSS) PER SHARE

The result attributable to owners for the parent used in the calculation of diluted earnings/(loss) per share is the same as that used in the basic earnings/(loss) per share calculation in 15.1 above. The diluted weighted average number of ordinary shares outstanding during the period is 225 million (year ended 31 December 2013: 212 million). The Group's deferred bonus share scheme and Save As You Earn share-based schemes increased the weighted average number of shares on a diluted basis by 465,256 shares for the year ended 31 December 2014 (2013: 350,795).

Diluted earnings/(loss) per share is as follows:

	Year ended 31 Dec 2014 pence	Year ended 31 Dec 2013 pence
Diluted earnings per share from continuing operations	96.5p	85.2p
Diluted earnings/(loss) per share from discontinued operations	41.0p	(17.1)p
Total diluted earnings per share	137.5p	68.1p

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

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

Details of the warrants are given in note 24.2.

16. SHARE CAPITAL

This note gives details of Phoenix Group Holding's ordinary share capital and shows the movements during the year. The accounting policy adopted in the preparation of this note is detailed in note 1(aa).

	2014 £	2013 £
Authorised:		
410 million (2013: 410 million) ordinary shares of €0.0001 each	31,750	31,750
Issued and fully paid:		
225.1 million (2013: 224.8 million) ordinary shares of €0.0001 each	18,439	18,418

The holders of ordinary shares are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits. Movements in issued share capital during the year:

2014

	Number	£
Shares in issue at 1 January	224,818,301	18,418
Other ordinary shares issued in the period	271,983	21
Shares in issue at 31 December	225,090,284	18,439

During the year, the Company issued 271,983 shares at a premium of £1 million in order to satisfy its obligations to employees under the Group's sharesave schemes (see note 19).

2013

	Number	£
Shares in issue at 1 January	174,587,148	14,174
Placement and open offer ordinary shares	50,000,000	4,224
Other ordinary shares issued in the period	231,153	20
Shares in issue at 31 December	224,818,301	18,418

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

During 2013, the Company issued 231,153 shares at a premium of £1 million in order to satisfy its obligations to employees under the Group's share schemes.

17. OTHER RESERVES

This note gives details of the other reserve balance which arose on 2 September 2009 when the Company issued 36,000,000 contingent rights over its shares.

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

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

18. SHARES HELD BY THE EMPLOYEE BENEFIT TRUST AND GROUP ENTITIES

This note gives details of the value of the shares held by the Phoenix Group Holdings Employee Benefit Trust ('PGH EBT') to satisfy awards granted to employees under the Group's share-based payment schemes and shares held by other Group entities. The accounting policy adopted in the preparation of this note is detailed in note 1(aa).

	2014 £m	2013 £m
At 1 January	13	10
Shares acquired by the PGH EBT in year	8	11
Shares awarded to employees by the PGH EBT in year	(10)	(8)
Shares sold by other Group entities in year	(3)	–
At 31 December	8	13

During the year 1,478,921 (2013: 1,144,993) shares were awarded to employees by the PGH EBT, 1,200,000 (2013: 1,425,553) shares were purchased and nil (2013: 203,575) shares were received following take up by the PGH EBT of its rights under the open offer (see note 16). The number of shares held by the PGH EBT at 31 December 2014 was 1,250,556 (2013: 1,529,477).

The Company provides the PGH EBT with an interest-free facility arrangement to enable it to purchase the shares. Details of this loan are included in note K to the parent company accounts.

In addition, 540,612 (2013: nil) shares held by other Group entities were sold during the year. The number of shares held by other Group entities as at 31 December 2014 was nil (2013: 540,612).

19. SHARE-BASED PAYMENT

This note describes the various share-based payment schemes used within the Group and how the options and awards of shares are valued. The accounting policy adopted in the preparation of this note is detailed in note 1(z).

19.1 SHARE-BASED PAYMENT EXPENSE

The expense recognised for employee services receivable during the year is as follows:

	2014 £m	2013 £m
Expense arising from equity-settled share-based payment transactions	7	6

19.2 SHARE-BASED PAYMENT SCHEMES IN ISSUE

Long-term incentive plan ('LTIP')

In 2009, the Group implemented a long-term incentive plan to retain and motivate its senior management group. The awards under this plan are in the form of nil-cost options to acquire an allocated number of ordinary shares. Assuming no good leavers or other events which would trigger early vesting rights, these awards will be subject to performance conditions tied to the Company's financial performance in respect of growth in MCEV, cumulative cash generation over a three year period and, with respect to the 2012, 2013 and 2014 LTIPs only, total shareholder return ('TSR'). There are no cash settlement alternatives. The 2011 LTIP awards vested during the year. The 2012 award will vest on 2 April 2015, the 2013 award will vest on 15 November 2016 and the 2014 award will vest on 26 March 2017. The 2010, 2011 and 2012 LTIP awards were increased during 2013 as a result of the equity raising on 21 February 2013 (see note 16).

The fair value of these awards is estimated at the share price at the grant date, taking into account the terms and conditions upon which the instruments were granted.

Sharesave scheme

The sharesave scheme allows participating employees to save up to £250 each month over a period of either 3 or 5 years. This amount was increased to £500 each month with respect to the 2014 sharesave.

Under the sharesave arrangement, participants remaining in the Group's employment at the end of the 3 or 5 year saving period are entitled to use their savings to purchase shares at an exercise price at a discount to the share price on the date of grant. Employees leaving the Group for certain reasons are able to use their savings to purchase shares if they leave less than six months before the end of their 3 or 5 year periods.

The fair value of the awards has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model include expected share price volatility and expected dividend yield.

The 2010, 2011 and 2012 sharesave awards were increased during 2013 as a result of the equity raising on 21 February 2013 (see note 16). The exercise price of these awards were also amended as a result of the equity raising. The 2014 sharesave awards were granted on 24 April 2014.

The following information was relevant in the determination of the fair value of the 2010 to 2014 sharesave awards in the year:

	2014 sharesave	2013 sharesave	2012 sharesave	2011 sharesave	2010 sharesave
Share price (p)	674.0	630.0	524.5	669.5	650.0
Exercise price (£)	6.04	5.60	4.66	5.58	5.49
Expected life (years)	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	1.3 (for 3.25 year scheme) and 1.9 (for 5.25 year scheme)	0.4 (for 3.25 year scheme) and 0.8 (for 5.25 year scheme)	0.6 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	1.8 (for 3.25 year scheme) and 2.6 (for 5.25 year scheme)	2.0 (for 3.25 year scheme) and 2.8 (for 5.25 year scheme)
Expected volatility (%) based on the Company's share price volatility to date	30.0	30.0	30.0	30.0	30.0
Dividend yield (%)	7.9	8.5	8.0	6.3	–

Deferred bonus share scheme ('DBSS')

With effect from 31 December 2010, part of the annual incentive for certain executives, for any year, is deferred into Phoenix Group Holdings' shares. This grant of shares is conditional on the employee remaining in employment with the Group for a period of 3 years. The 2011 DBSS awards vested during the year. The 2012 awards are expected to vest on 2 April 2015, the 2013 awards are expected to vest on 27 March 2016 and the 2014 awards are expected to vest on 28 March 2017. The 2011 and 2012 DBSS awards were increased during 2013 as a result of the equity raising on 21 February 2013 (see note 16).

The fair value of these awards is estimated at the share price at the grant date, taking into account the terms and conditions upon which the options were granted.

19.3 MOVEMENTS IN THE YEAR

The following tables illustrate the number of, and movements in, share options during the year:

	Number of share options 2014		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	3,749,531	1,017,771	362,867
Granted during the year	1,154,260	503,544	212,898
Forfeited during the year	(610,236)	(241,221)	(31,570)
Cancelled during the year	–	(34,703)	–
Exercised during the year	(1,139,934)	(257,873)	(61,946)
Outstanding at the end of the year	3,153,621	987,518	482,249

	Number of share options 2013		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	3,863,439	1,009,951	185,138

Granted during the year	1,138,199	305,672	208,835
Forfeited during the year	(364,614)	(40,015)	–
Cancelled during the year	–	(26,684)	–
Exercised during the year	(887,493)	(231,153)	(31,106)
Outstanding at the end of the year	3,749,531	1,017,771	362,867

The weighted average fair value of options granted during the year was £5.65 (2013: £5.93).

The weighted average share price at the date of exercise for the rewards exercised is £6.90 (2013: £6.88).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2014 is 1.4 years (2013: 1.5 years).

20. NON-CONTROLLING INTERESTS

This note gives details of the Group's non-controlling interests and shows the movements during the year. The accounting policy adopted in the preparation of this note is detailed in note 1(a).

2014

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January	408	370	778
Profit for the year	21	75	96
Dividends paid	–	(22)	(22)
Coupon paid, net of tax relief	(21)	–	(21)
Shares in subsidiaries subscribed for by non-controlling interests	–	82	82
At 31 December	408	505	913

2013

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January	408	316	724
Profit for the year	20	42	62
Dividends paid	–	(25)	(25)
Coupon paid, net of tax relief	(20)	–	(20)
Shares in subsidiaries subscribed for by non-controlling interests	–	37	37
At 31 December	408	370	778

20.1 PERPETUAL RESET CAPITAL SECURITIES

On 1 January 2010, Pearl Group Holdings (No. 1) Limited ('PGH1') had in issue £500 million of Perpetual Reset Capital Securities ('the Notes') which are admitted to the Official List of the UK Listing Authority and to trading on the LSE. Following amendments made to the Notes in 2010, the principal amount outstanding is now £425 million.

The Notes are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon PGH1 being solvent at the time of payment and immediately following such payment.

Notes with a principal amount of £31 million as at 31 December 2014 (2013: £31 million) are held by other Group entities and are therefore eliminated in the preparation of the consolidated financial statements.

The Notes have no fixed maturity date and coupon payments may be deferred at the option of PGH1; accordingly the Notes meet the definition of equity for financial reporting purposes. Under the current regulatory rules of the PRA, the Notes also meet the conditions to be included as Tier 1 capital in the calculation of the group capital resources for solvency reporting purposes. Where the Notes are not held by other Group entities, they are disclosed as a non-controlling interest in the consolidated financial statements.

The Notes may be redeemed at par at the option of PGH1 on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to the agreement of the PRA. In certain circumstances PGH1 has the right to substitute the Notes or to redeem the Notes before the first reset date.

Coupons are payable annually in arrears on 25 April, at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons are payable semi-annually at 2.73% per annum over the then prevailing offered rate for six month sterling deposits.

If PGH1 opts to defer a coupon payment, then PGH1 has the option to either leave the coupon outstanding or satisfy the deferred coupon payment through the alternative coupon satisfaction mechanism (the 'ACSM'), which involves the issue by PGH1 of ordinary shares in order to fund payment of the deferred coupon. The ACSM was implemented during 2010 in order to enable payment of a coupon which had been deferred during 2009.

For so long as a deferred coupon payment has not been satisfied, PGH1 may not declare, pay or distribute a dividend on any of its securities in issue ranking junior to the Notes, including the ordinary shares of PGH1 or any parity securities or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares or any parity securities. These restrictions would also apply to the Company until the deferred coupon payment is satisfied.

On 25 April 2014, the 2014 coupon was settled in full by PGH1, other than to two companies within the Group which waived their right to receive that coupon.

In January 2015, the Group announced the successful exchange of 99% of the Notes (see note 46 for details).

20.2 UK COMMERCIAL PROPERTY TRUST LIMITED

UK Commercial Property Trust Limited ('UKCPT') 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 LSE.

The Group now holds 53% (2013: 58%) of the issued share capital of UKCPT. The Group's interest in UKCPT is held in the with-profit funds of the Group's life companies. Therefore, the shareholder exposure to the results of UKCPT is limited to the impact of those results on the shareholder share of distributed profits of the relevant fund. Further information on the Group's with-profit funds is provided in note 39.

Summary financial information for the UKCPT is shown below:

	2014 £m	2013 £m
Non current assets	612	457
Current assets	14	21
Non-current liabilities	(111)	(100)
Current liabilities	(10)	(8)
	505	370
Revenue	86	52
Profit before tax	75	42
Income tax	–	–
Profit for the year after tax	75	42

21. LIABILITIES UNDER INSURANCE CONTRACTS

This note contains a summary of the liabilities under insurance contracts and the related reinsurers' share included within assets in the statement of consolidated financial position. The accounting policies adopted in the preparation of this note are detailed in notes 1 (d), (e) and (s).

	Gross liabilities 2014 £m	Reinsurers' share 2014 £m	Gross liabilities 2013 £m	Reinsurers' share 2013 £m
Life assurance business:				
Insurance contracts	33,582	4,484	31,960	2,850
Investment contracts with DPF	11,124	1	10,769	1
	44,706	4,485	42,729	2,851
Less amounts classified as held for sale (note 4.2)	(1,776)	(1,713)	–	–
	42,930	2,772	42,729	2,851
Amounts due for settlement after 12 months	39,636	2,705	39,126	2,775

	Gross liabilities 2014 £m	Reinsurers' share 2014 £m	Gross liabilities 2013 £m	Reinsurers' share 2013 £m
At 1 January	42,729	2,851	45,730	3,204
Amounts classified as held for sale	–	–	5,404	5,083
	42,729	2,851	51,134	8,287
Premiums	981	1,792	1,333	(11)
Claims	(3,724)	(341)	(4,830)	(464)
Other changes in liabilities	4,751	200	86	(235)
Foreign exchange adjustments	(31)	(17)	17	7
Effect of portfolio transfers	–	–	(5,011)	(4,733)
	44,706	4,485	42,729	2,851
Less amounts classified as held for sale (note 4.2)	(1,776)	(1,713)	–	–
At 31 December	42,930	2,772	42,729	2,851

22. UNALLOCATED SURPLUS

This note shows the movement in the excess of the assets over the policyholder liabilities of the with-profit business of the Group's life operations. The accounting policy adopted in the preparation of this note is detailed in note 1(e).

	2014 £m	2013 £m
At 1 January	970	893
Transfer from income statement	11	77
At 31 December	981	970

23. BORROWINGS

This note shows the carrying values and fair values of each of the Group's borrowings and explains their main features and movements during the year. The accounting policy adopted in the preparation of this note is detailed in note 1(h).

	Carrying value		Fair value	
	2014	2013	2014	2013

	£m	£m	£m	£m
Limited recourse bonds 2022 7.59% (note a)	73	86	92	95
Property Reversions loan (note b)	184	186	184	186
£80 million facility agreement (note c)	80	80	80	80
£150 million term facility (note d)	150	150	150	150
Total policyholder borrowings	487	502	506	511
£200 million 7.25% unsecured subordinated loan (note e)	149	151	212	205
£300 million senior unsecured bond (note f)	298	–	324	–
£450 million revolving credit facility (note g)	441	–	450	–
£450 million amortising term loan (note g)	387	–	390	–
£2,260 million syndicated loan facility (note h)	–	1,182	–	1,182
£100 million PIK notes and facility (note i)	–	121	–	118
£75 million secured loan note (note j)	–	76	–	49
£425 million loan facility (note j)	–	327	–	315
Total shareholder borrowings	1,275	1,857	1,376	1,869
Total borrowings	1,762	2,359	1,882	2,380
Amount due for settlement after 12 months	1,609	2,183		

DEBENTURE LOANS

a. In 1998, National Provident Institution raised £260 million of capital through the securitisation of embedded value on a block of existing unit-linked and unitised with-profit life and pension policies. Following the demutualisation of National Provident Institution, these were transferred to National Provident Life Limited ('NPLL'). The bonds were split between two classes, which rank pari passu. The £140 million 7.39% class A1 limited recourse bonds matured in 2012 with no remaining outstanding principal. The £120 million 7.59% class A2 limited recourse bonds with an outstanding principal of £94 million (2013: £105 million) have an average remaining life of 4 years maturing in 2022. NPLL has provided collateral of £39 million (2013: £44 million) to provide security to the holders of the NPLL recourse bonds in issue. During 2014, repayments totalling £11 million were made (2013: £11 million).

b. The Property Reversions loan from Santander UK plc ('Santander') was brought into the consolidated financial statements at fair value. It relates to the sale of Extra-Income Plan policies that Santander finances to the value of the associated property reversions. With effect from 1 January 2012, Phoenix Life Limited ('PLL') became party to a loan agreement with Santander UK plc ('Santander'). As part of the arrangement Santander receive an amount calculated by reference to the movement in the Halifax House Price Index and PLL is required to indemnify Santander against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years. During 2014, repayments totalling £24 million were made (2013: £22 million). Note 33 contains details of the assets that support this loan.

c. In 2008, UKCPT entered into an £80 million revolving loan facility agreement. This loan accrues interest at LIBOR plus a variable margin of 0.50% to 0.60% per annum. The lender holds a floating charge over certain assets of UKCPT and its subsidiaries. The repayment date for this facility is 19 June 2015. This facility was fully utilised during 2014 and 2013.

d. On 19 May 2011, UKCPT entered into a £150 million investment term loan facility agreement. The £150 million investment term loan facility agreement accrues interest at LIBOR plus a variable margin of 1.60% to 2.00% per annum. The lender holds security over the assets of UK Commercial Property Estates Holdings Limited and UK Commercial Property Estates Limited, both of which are subsidiaries of UKCPT. The repayment date for this facility is 19 May 2018. As at 31 December 2014, the facility was fully drawn down (2013: Fully drawn down).

e. Scottish Mutual Assurance Limited issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001 ('PLL subordinated debt'). The earliest repayment date of the notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding. With effect from 1 January 2009, as a part of a Part VII transfer, these loan notes were transferred into the shareholder fund of PLL. In the event of the winding-up of PLL, the right of payment under the notes is subordinated to the rights of the higher-ranking creditors (principally policyholders). As a result of the acquisition of the Phoenix Life businesses in 2009, these subordinated loan notes were acquired at their fair value and as such, the outstanding principal of these subordinated loan notes differs from the carrying value in the consolidated statement of financial position. The fair value adjustments, which were recognised on acquisition, will unwind over the remaining life of these subordinated loan notes.

   With effect from 23 December 2014, with the consent of the note holders, minor modifications were made to the terms of the notes to enable them to qualify as lower tier 2 capital. Expenses incurred in effecting these modifications amounted to £10 million. Given the modifications were not substantial, the carrying amount of the liability has been adjusted accordingly and will be amortised over the life of the notes.

f. On 7 July 2014 the Group's financing subsidiary, PGH Capital Limited, issued a £300 million 7 year senior unsecured bond at an annual coupon rate of 5.75% ('the senior bond'). The senior bond is subject to guarantee by the Company. The net proceeds from the bond issue of £296 million were used to prepay the Impala loan facility (see note h).

g. On 23 July 2014 PGH Capital Limited entered into a new £900 million 5 year unsecured bank facility which along with a £206 million debt prepayment from internal resources was used to refinance the entirety of the Group's existing two bank facilities and PIK notes, replacing the Impala and Pearl loan facilities with a single debt facility (see notes h and j). The new facility comprises a £450 million revolving credit facility ('RCF') loan and a £450 million amortising term loan. Both loans are repayable by July 2019 with an option to request an extension to the term of the RCF loan by two years to July 2021. Further terms of the facilities agreement include:

   – term facility repayment instalments of £30 million are due semi-annually on 30 June and 31 December each year. Additional target repayments of £30 million may be paid semi-annually on 30 June and 31 December each year from 30 June 2015, non-payment of which would trigger restrictions on the Group regarding the declaration of dividends;
   – the term loan bears interest at LIBOR plus an opening margin of 3.50% p.a. and the RCF loan at LIBOR plus an opening margin of

3.25% p.a. After six months the margins will change in accordance with a margin ratchet which operates by reference to the Group's gearing ratio. Margins will reduce by 0.50% on achievement of an investment grade rating; and

– amongst other fees, a utilisation fee of 0.25% p.a. is payable in respect of the RCF loan for so long as the amount outstanding under the RCF exceeds 50% of the total commitments of the RCF loan.

Fees associated with this facility have been deferred and amortised over the life of the loan in the consolidated statement of financial position.

h. On 14 May 2008, PGH (LC1) Limited and PGH (LC2) Limited jointly obtained a £2,260 million loan facility from a syndicate of external banks (the 'Impala Facility'). This facility was split into Tranche loans A, B and C of £1,275 million, £492.5 million and £492.5 million respectively. On 22 February 2013, Tranche A, Tranche B and Tranche C of the Impala Facility were converted into a £1,851 million single tranche term loan facility and an initial prepayment of £450 million was paid. The original financial liability was treated as an extinguishment and was replaced in the statement of consolidated financial position by a new financial liability. Arrangement and structuring fees of £21 million associated with this financial liability were shown in the consolidated income statement in 2013. Further scheduled payments of £60 million, target repayments of £60 million and voluntary repayments of £100 million were also made during 2013.

During June 2014, scheduled repayments of £30 million and target repayments of £30 million were made. On 1 July, a £250 million debt prepayment was made following the divestment of Ignis. A further prepayment of £296 million was made on 7 July 2014 following the issuance of the senior bond (see note f). On 23 July 2014 the outstanding balance on the £2,260 million Impala facility was fully repaid (see note g).

i. On 14 May 2008, PGH (MC1) Limited issued PIK notes to the value of £154.5 million to Royal London and PGH (MC2) Limited obtained a £154.5 million PIK facility from Royal London. The PIK notes and facility were subsequently amended on 2 September 2009, leaving a total of £100 million outstanding. Interest accrued on the PIK notes and facility at LIBOR plus a margin of 2% unless an election was made by PGH (MC1) Limited or PGH (MC2) Limited to capitalise the interest, in which case the margin increased to 3.5%. During 2014, interest of £3 million (2013: £5 million) was capitalised on the PIK notes and facility. Tax relief has been recognised on the capitalised interest at the standard rate of 21.50% (2013: 23.25%). The PIK notes and facility were fully repaid on 23 July 2014 (see note g).

j. On 15 November 2006, PGH (LCA) Limited and PGH (LCB) Limited jointly became a party to a £905 million loan facility from a syndicate of external banks. This loan was subsequently amended on 2 September 2009, leaving £425 million outstanding on this facility (the 'Pearl Facility') and £75 million of secured C loan notes (the 'Pearl loan notes').

The £425 million facility attracted interest at LIBOR plus a margin of 1.25%. The £75 million secured C loan notes attracted interest at LIBOR plus a margin of 1.00%.

During the year, a scheduled repayment of £23 million (2013: £24 million) was made on the £425 million loan facility and interest of £1 million (£2013: £1 million) was capitalised on the £75 million secured C loan notes. Tax relief has been recognised on the capitalised interest at the standard rate of 21.50% (2013: 23.25%).

On 23 July 2014 the outstanding balances on the £425 million Pearl facility and the £75 million Pearl loan notes were fully repaid (see note g).

24. DERIVATIVES

24.1 SUMMARY

The Group purchases derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management. The Group does not typically hold derivatives for the purpose of selling or repurchasing in the near term or with the objective of generating a profit from short-term fluctuations in price or margin. This note provides an analysis of the derivative instruments held by the Group. The accounting policies adopted in the preparation of this note are detailed in notes 1(g) and 1(r).

The fair values of derivative financial instruments are as follows:

	Assets 2014 £m	Liabilities 2014 £m	Assets 2013 Restated £m	Liabilities 2013 Restated £m
Warrants over shares in Phoenix Group Holdings	–	–	–	5
Forward currency	27	23	827	780
Credit default options	1	9	3	9
Contract for differences	8	6	22	2
Interest rate swaps	1,965	2,062	668	1,318
Swaptions	355	–	243	–
Inflation swaps	55	52	33	4
Equity options	129	–	119	2
Stock index futures	14	32	18	33
Fixed income futures	2	8	24	8
Currency futures	2	–	9	–
	2,558	2,192	1,966	2,161

24.2 WARRANTS OVER SHARES

The Company had in issue the following warrants over shares:

	IPO warrants Number	Lenders' warrants Number	Royal London warrants Number
At 1 January 2013 and 31 December 2013	8,169,868	5,000,000	12,360,000
Warrants over shares expired during the year	(8,169,868)	–	(12,360,000)
At December 2014	–	5,000,000	–

The fair value of warrants over shares are as follows:

	Liabilities 2014 £m	Liabilities 2013 £m
Warrants over shares in Phoenix Group Holdings	–	5

IPO warrants

The IPO warrants originally entitled the holder to purchase one ordinary share at a price of €7.00 per share, subject to adjustment, at any time commencing on the consummation of a business combination. On 2 September 2009 the exercise price was increased to €11. At 31 December 2013, the terms of the IPO warrants entitled the holder to purchase 1.027873 ordinary shares per IPO warrant, for an exercise price of €10.70.

On 5 July 2010, the IPO warrants were admitted to trading on the LSE. The IPO warrants were subsequently delisted from Euronext on 17 November 2010.

The exercise period for the IPO warrants commenced on 2 September 2009, and expired at the close of trading on the LSE on 3 September 2014.

The IPO warrants were listed and were initially valued using the warrant price quoted on the LSE for the Company. Due to the relatively low number of IPO warrants in issue, they were thinly traded and the quoted price was not considered to be the best indicator of their fair value. As a result the IPO warrants were valued using an extended Black-Scholes valuation model. The key assumptions used to ascertain the £2 million value as at 31 December 2013 were as follows:

- share price as at 31 December 2013 of £7.28;
- volatility of 30%;
- the warrants are not adjusted for dividends; and
- the valuation incorporates the impact of amending some of the terms of the warrants on 8 May 2012.

Lenders' warrants

On 2 September 2009, the Company issued 5 million warrants over its shares to the Lenders. These warrants entitled the holder to purchase one 'B' ordinary share at a price of £15 per share, subject to adjustment. Following the achievement of the Company's Premium Listing on 5 July 2010, the Lenders' warrants relate to ordinary shares rather than 'B' ordinary shares. At 31 December 2014 the terms of Lenders' warrants entitled the holders to purchase 1.027873 (2013: 1.027873) ordinary shares per Lenders' warrant for an exercise price of £14.59 (2013: £14.59).

The exercise period terminates on the first to occur of:

- 15th anniversary of the date issued;
- date fixed for the redemption of the warrants; and
- liquidation of the Company.

All outstanding Lenders' warrants may be redeemed at the option of the Company at any time after they become exercisable and prior to their expiration at a price of €0.01 per warrant provided that the last closing bid price of the ordinary shares is equal to or exceeds £18.97 (2013: £18.97) on each of 20 consecutive trading days. The Company must give not less than 30 days' notice of the redemption date. Each warrant may then be exercised by the warrant holder (in whole or any part) at its option.

The holders are entitled to exercise their warrants for cash, assignment of an amount of outstanding principal/accrued interest of any Global Debt (i.e. any debt owed to the registered holder by any Group company) or on a cashless basis where the Company redeems the warrants. Any warrant either not exercised or tendered back to the Company by the redemption date shall be cancelled on the books of the Company and have no further value except for the €0.01 redemption price.

These Lenders' warrants are not traded in an active market and have therefore been valued using an extended Black-Scholes valuation model to capture the embedded barrier feature. The key assumptions used to ascertain a value as at 31 December 2014 are:

- the share price as at 31 December 2014 of £8.30;
- volatility of 30%;
- the warrants are not adjusted for dividends; and
- the valuation incorporates the impact of amending some of the terms of the warrants on 8 May 2012.

The value of the warrants at the year end was £200,000 (2013: £300,000).

Royal London warrants

On 2 September 2009, the Company issued 12.36 million warrants (2 million transferable and 10.36 million non-transferable) over its shares to Royal London as part consideration for acquiring the benefit of £250 million of the PIK notes and facility outstanding (comprising principal and capitalised interest). These warrants entitled the holder to purchase one 'B' ordinary share at a price of €11 per share, subject to adjustment. Following the achievement of the Company's Premium Listing, the Royal London warrants relate to ordinary shares rather than 'B' ordinary shares. At 31 December 2013 the terms of the Royal London warrants entitled the holders to purchase 1.027873 ordinary shares per Royal London warrant for an exercise price of €10.70.

The exercise period for the Royal London Warrants expired on 3 September 2014.

The Royal London warrants were not traded in an active market and had therefore been valued using an extended Black-Scholes valuation model.

The key assumptions used to ascertain a value of £3 million as at 31 December 2013 are as for the IPO warrants (see before).

25. PROVISIONS

This note details the non-insurance provisions that the Group holds and shows the movements in these during the year. The accounting policy adopted in the preparation of this note is detailed in note 1(u).

2014

	Leasehold properties £m	Staff related £m	Known incidents £m	Other £m	Total £m
At 1 January	9	33	1	10	53
Additions in the year	–	4	1	4	9
Utilised during the year	(1)	(9)	–	(2)	(12)
Discontinued operations disposed of during the year	–	(16)	–	(7)	(23)
Released during the year	(1)	–	–	–	(1)
At 31 December	7	12	2	5	26

The leasehold properties provision has been made for amounts in respect of the excess of lease rentals and other payments on properties that are currently vacant or are expected to become vacant, over the amounts to be recovered from subletting these properties. The discount rate used was 1.7% (2013: 1.7%) and it is expected that the provision will be utilised over the next 4 years (2013: 5 years).

Discontinued operations disposed of during the year relates to the divestment of Ignis on 1 July 2014.

Staff related provisions include provisions for unfunded pensions of £6 million (2013: £6 million) and private medical insurance costs for former employees of £3 million (2013: £3 million).

The known incidents provision was created for historical data quality, administration systems problems and process deficiencies on the policy administration, financial reconciliations and operational finance aspects of business outsourced.

Included in other provisions are litigation and onerous contract provisions.

26. TAX ASSETS AND LIABILITIES

This note analyses the tax assets and liabilities that appear in the statement of consolidated financial position, and explains the movements in these balances during the year. The accounting policy adopted in the preparation of this note is detailed in note 1(l).

	2014 £m	2013 £m
Current tax:		
Current tax receivable	8	6
Current tax payable	(165)	(107)
Deferred tax:		
Deferred tax liabilities	(364)	(373)

MOVEMENT IN DEFERRED TAX ASSETS/(LIABILITIES)

2014	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Discontinued operations disposed of during the year £m	31 December £m
Trading losses	40	(3)	–	–	37
Expenses and deferred acquisition costs carried forward	37	(35)	–	–	2
Provisions and other temporary differences	(3)	15	–	(1)	11
Non refundable pension scheme surplus	–	(8)		–	(8)
Committed future pension contributions	70	(22)	9	–	57
Accelerated capital allowances	14	(4)	–	(2)	8
Unpaid interest	61	(19)	–	–	42
Acquired in-force business	(428)	27	–	–	(401)
Customer relationships	(73)	3	–	27	(43)
IFRS transitional adjustments	(72)	8	–	–	(64)
Adjustment for insurance policies held with related parties in respect of the PGL pension scheme	(19)	14	–	–	(5)
	(373)	(24)	9	24	(364)

2013 Restated	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Disposals in the year £m	Discontinued operations disposed of during the year £m	31 December £m
Trading losses	107	(67)	–	–	–	40
Expenses and deferred acquisition costs carried forward	5	32	–	–	–	37
Provisions and other temporary differences	3	(7)	–	–	1	(3)
Committed future pension contributions	97	(15)	(12)	–	–	70
Accelerated capital allowances	17	(5)	–	–	2	14

Unpaid interest	62	(1)	–	–	–	61
Acquired in-force business	(501)	96	–	(23)	–	(428)
Customer relationships	(88)	16	–	–	(1)	(73)
IFRS transitional adjustments	(88)	16	–	–	–	(72)
Adjustment for insurance policies held with related parties in respect of the PGL pension scheme	(23)	4	–	–	–	(19)
	(409)	69	(12)	(23)	2	(373)

The Finance Act 2013 set the rate of corporation tax at 21% from 1 April 2014 and 20% from 1 April 2015. Consequently a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

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

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

	2014 £m	2013 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	39	50
Excess expenses and deferred acquisition costs	–	2
Provisions and other temporary differences	6	9
Deferred tax assets not recognised on capital losses[1]	116	121

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

27. PAYABLES RELATED TO DIRECT INSURANCE CONTRACTS

This note analyses the Group's payables arising from direct insurance contracts at the end of the year.

	2014 £m	2013 £m
Payables related to direct insurance contracts	358	443
Less amounts classified as held for sale (note 4.2)	–	(48)
	358	395
Amount due for settlement after 12 months	–	–

The general insurance element amounts to £nil million (2013: £48 million – included within liabilities held for sale).

28. ACCRUALS AND DEFERRED INCOME

This note analyses the Group's accruals and deferred income at the end of the year.

	2014 £m	2013 £m
Accruals and deferred income	130	139
Amount due for settlement after 12 months	–	–

29. OTHER PAYABLES

This note analyses the Group's other payables at the end of the year.

	2014 £m	2013 Restated £m
Investment broker balances	242	198
Other payables	118	110
	360	308
Less amounts classified as held for sale (note 4.2)	–	(1)
	360	307
Amount due for settlement after 12 months	–	–

30. PENSION SCHEMES

This note describes the Group's two main staff pension schemes for its employees, the Pearl Group Staff Pension Scheme and the PGL Pension Scheme and explains how the pension asset/liability is calculated. The accounting policy adopted in the preparation of this note is detailed in note 1(m).

An analysis of the defined benefit asset/liability for each pension scheme is set out below:

	2014 £m	2013 £m
Pearl Group Staff Pension Scheme		
Economic surplus/(deficit)	218	(53)

Minimum funding requirement obligation	(86)	(84)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	(76)	–
Net defined benefit asset/(liability)	56	(137)

PGL Pension Scheme		
Economic surplus (including £526 million (2013: £313 million) available as a refund on a winding-up of the Scheme)	590	368
Adjustment for insurance policies eliminated on consolidation	(23)	(95)
Net economic surplus	567	273
Minimum funding requirement obligation	(13)	(17)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	(184)	(96)
Net defined benefit asset	370	160

The Group defined benefit schemes typically expose the Group to a number of risks, the most significant of which are:

Asset volatility – the value of the scheme's assets will vary as market conditions change and as such is subject to considerable volatility. The volatility in the scheme's assets can be caused by both volatility within the markets or variations in the return achieved by the schemes' investment managers relative to market performance. In particular there is the risk that the variation in asset values will not be in line with the variation in pension liability values, and as such differences in the nature and duration of the assets and liabilities can cause difference in the way that the assets and liabilities vary.

Inflation risk – a significant proportion of the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). Assets in both schemes are invested so as to hedge a significant proportion of the inflation risks, further details of which are included in this note.

Life expectancy – the majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Information on each of these schemes is set out below.

30.1 PEARL GROUP STAFF PENSION SCHEME

Scheme details

The Pearl Group Staff Pension Scheme ('the Pearl Scheme') comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members, and since 1 July 2011 are also closed to future accrual by active members.

Defined contribution scheme

Contributions in the year amounted to £1 million (2013: £1 million).

Defined benefit scheme

The defined benefit scheme is funded by payment of contributions to a separately administered trust fund. The Pearl Scheme is established under, and governed by, the trust deeds and rules. A Group company, PGH2, is the principal employer of the Pearl Scheme. The principal employer meets the administration expenses of the Pearl Scheme. The Pearl Scheme is administered by a separate Trustee company, P.A.T. (Pensions) Ltd, which is separate from the Company. The Trustee company is comprised of two representatives from the Group, three member nominated representatives and one independent trustee in accordance with the Trustee company's articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the scheme, a liability is recognised when the obligation arises.

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2014, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

Funding

A triennial funding valuation of the Pearl Scheme as at 30 June 2012 was completed in May 2013. This showed a deficit as at 30 June 2012 of £480 million, on the agreed technical provisions basis.

On 27 November 2012 the principal employer and the Trustee of the Pearl Scheme entered into a revised pensions funding agreement (the 'Pensions Agreement'), which forms the basis of the 30 June 2012 triennial valuation. The principal terms of the Pensions Agreement are:

- annual cash payments into the scheme of £70 million in 2013 and 2014 payable on 30 September, followed by payments of £40 million each year from 2015 to 2021. The Pensions Agreement includes a sharing mechanism, related to the level of dividends paid out of PGH, that in certain circumstances allows for an acceleration of the contributions to be paid to the Pearl Scheme;
- increased and further contributions may become payable if the scheme is not anticipated to meet the two agreed funding targets:
  (i) to reach full funding on the technical provisions basis by 30 June 2022; and
  (ii) to reach full funding on a gilts flat basis by 30 June 2031;
- the Trustee continues to benefit from a first charge over shares in Phoenix Life Assurance Limited, National Provident Life Limited, Pearl Group Services Limited and PGS2 Limited. Following the repayment of the £425 million loan facility and £75 million of secured C loan notes on 23 July 2014 (see note 23) the value of the security claim granted under the share charges is capped at the lower of £600 million and 100% of the Pearl Scheme deficit (calculated on a basis linked to UK government securities) revalued every three years thereafter, increasing from 60% of the Pearl Scheme deficit; and
- covenant tests relating the embedded value of certain companies within the Group.

It should be noted that the terms of the new £900 million facility agreement (see note 23) restrict the Group's ability, with certain exceptions, to transfer assets into the secured companies over which the Trustee holds a charge over shares.

An additional liability of £86 million (2013: £84 million) has been recognised, reflecting a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions of £245 million (2013: £241 million) (£294 million of discounted future contributions less a current deficit of £53 million) in accordance with the minimum funding requirement. A deferred tax asset of £49 million (2013: £59 million) has also been recognised to reflect tax relief at a rate of 20% (2013: 20%) that is expected to be available on the contributions, once paid into the scheme.

Contributions totalling £68 million were paid into the scheme in 2014. The £70 million due by 30 September 2014 was reduced by £2 million in respect of accelerated deficit funding contributions which were paid in 2013 as a result of the enhanced transfer value ('ETV') exercise.

Contributions totalling £40 million are expected to be paid into the scheme in 2015.

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2014

	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January 2014	1,855	(1,908)	–	(84)	(137)
Interest income/(expense)	83	(84)	–	(4)	(5)
Included in profit or loss	83	(84)	–	(4)	(5)
Remeasurements:					
Return on plan assets excluding amounts included in interest income	360	–	–	–	360
Gain from change in demographic assumptions	–	19	–	–	19
Loss from change in financial assumptions	–	(195)	–	–	(195)
Experience gains	–	20	–	–	20
Change in provision for tax on economic surplus available as a refund	–	–	(76)	–	(76)
Change in minimum funding requirement obligation	–	–	–	2	2
Included in other comprehensive income	360	(156)	(76)	2	130
Employer's contributions	68	–	–	–	68
Benefit payments	(87)	87	–	–	–
At 31 December 2014	2,279	(2,061)	(76)	(86)	56

2013

	Fair value of scheme assets £m	Defined benefit obligation £m	Minimum funding requirement obligation £m	Total £m
At 1 January 2013	1,870	(1,984)	(83)	(197)
Interest income/(expense)	82	(87)	(3)	(8)
Gains and losses on settlement	(72)	63	–	(9)
Included in profit or loss	10	(24)	(3)	(17)
Remeasurements:				
Return on plan assets excluding amounts included in interest income	(8)	–	–	(8)
Gain from change in demographic assumptions	–	57	–	57
Loss from change in financial assumptions	–	(44)	–	(44)
Experience losses	–	(3)	–	(3)
Change in minimum funding requirement obligation	–	–	2	2
Included in other comprehensive income	(8)	10	2	4
Employer's contributions	73	–	–	73
Benefit payments	(90)	90	–	–
At 31 December 2013	1,855	(1,908)	(84)	(137)

During 2013 the Group completed an ETV exercise which offered in-scope deferred members of the Pearl Scheme the option to take an equivalent cash transfer value to exit the scheme, thereby extinguishing any future liability and risk for the Group with respect of these members. The financial effect of all completed transfers was recognised in the consolidated financial statements in 2013.

As at 31 December 2013, ETVs of £72 million had been paid out, reducing scheme assets, and there was a resultant reduction in scheme liabilities of £63 million. The net settlement cost of £9 million was recognised in the 2013 consolidated income statement.

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2014		2013	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Hedging portfolio	1,916	(16)	1,646	24
Equities	120	–	110	–
Fixed interest gilts	140	–	111	–
Other debt securities	935	–	819	–
Properties	170	170	178	178
Private equities	37	37	35	35
Hedge funds	38	38	36	36
Cash and other	90	–	57	–
Obligations for repayment of stock lending collateral received	(1,167)	–	(1,137)	–
	2,279	229	1,855	273

The actual return on plan assets was £443 million (2013: £75 million).

The Group ensures that the investment positions are managed within an asset liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the pension scheme. Within this framework an allocation of 25% of the scheme assets is invested in collateral for interest rate and inflation rate hedging where the intention is to hedge greater than 90% of the interest rate and inflation rate risk measured on the Technical Provisions basis. The hedge ratio will be further increased to 100% when market conditions appear favourable.

The Pearl Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities which are disclosed in the table above as 'Hedging Portfolio' assets. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value in the form of cash in return which is typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bond, hence the bonds continue to be recognised as scheme assets with a corresponding liability to repay the cash received as disclosed in the table above.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

Deferred scheme members: 40% (2013: 41%)

Retirees: 60% (2013: 59%)

The weighted average duration of the defined benefit obligation at 31 December 2014 is 17 years (2013: 17 years).

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out in the table below:

	2014 %	2013 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	2.90	3.15
Rate of increase for deferred pensions ('CPI')	2.00	2.35
Discount rate	3.65	4.50
Inflation – RPI	3.00	3.35
Inflation – CPI	2.00	2.35

The discount rate and inflation rate assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Pearl Scheme's liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from the actual mortality experience in recent years, performed as part of the actuarial funding valuation as at 30 June 2012, based on the SAPS standard tables for males and for females based on year of use. Future longevity improvements are in line with current Group best estimate longevity improvements, which are based on CMI 2012 Core Projections and a long-term rate of improvement of 2% p.a. up to and including age 75 then decreasing linearly to 0% p.a. at age 110. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 29.9 years and 33.0 years for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions as at 31 December 2014 is shown below:

2014

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	2,061	(79)	84	53	(50)	55	(53)

2013

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,908	(71)	75	49	(47)	53	(52)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension asset recognised within the statement of financial position.

The UK Government currently intends to equalise benefits between males and females arising from the accrual of Guaranteed Minimum Pensions ('GMP') requirements. Legislation will be implemented following completion of the current consultation on this matter. Once this consultation process has reached a conclusion, the Group will be able to quantify the impact of this change.

30.2 PGL PENSION SCHEME

Scheme details

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

Defined contribution scheme

Contributions in the year amounted to £6 million (2013: £5 million).

Defined benefit scheme

The defined benefit section of the PGL Pension Scheme is a final salary arrangement which is closed to new entrants and has been closed to future accrual by active members since 1 July 2011.

The PGL Scheme is administered by a separate Trustee company, PGL Pension Trustee Ltd. The Trustee company is comprised of two representatives from the Group, three member nominated representatives and one independent trustee in accordance with the Trustee company's articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

The valuation has been based on an assessment of the liabilities of the PGL Pension Scheme as at 31 December 2014, undertaken by independent qualified actuaries.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the scheme, a liability is recognised when the obligation arises.

Funding

A triennial funding valuation of the PGL Pension Scheme as at 30 June 2012 was completed in September 2013. This showed a deficit as at 30 June 2012 of £39 million. Following discussions with the Trustee of the PGL Pension Scheme it was agreed that the existing schedule of cash contributions to the scheme amounting to £59 million would continue to be paid over the period from October 2013 to August 2017. Total future contributions amount to £40 million at 31 December 2014 and contributions totalling £15 million are expected to be paid into the scheme in 2015.

In accordance with an agreement dated November 2005, certain of the Group's with-profit funds indemnified the shareholders in respect of contribution calls equal to their share of the costs of changes in longevity assumptions. In January 2014, PGH1 received £8 million under this agreement. In June 2014, PGH1 and Phoenix Life Limited ('PLL') entered into an agreement whereby in exchange for a payment by the PLL with-profit funds to PGH1 of £68 million, PGH1 released the with-profit funds from any future obligations to indemnify the company. On the same date, the PLL non-profit fund entered into a longevity swap with the PGL Pension Scheme with effect from 1 January 2014, under which the Scheme has transferred the risk of longevity improvements to PLL. The financial effect of this contract is eliminated on consolidation.

An additional liability has been recognised of £13 million (2013: £17 million) reflecting a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions of £38 million (2013: £51 million) in accordance with the minimum funding requirement. A deferred tax asset of £8 million (2013: £10 million) has also been recognised to reflect tax relief at a rate of 20% (2013: 20%) that is expected to be available on the contributions, once paid into the scheme.

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2014

	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January 2014	1,639	(1,366)	(96)	(17)	160
Interest income/(expense)	75	(60)	(4)	(2)	9
Administrative expenses	(3)	–	–	–	(3)
Included in profit or loss	72	(60)	(4)	(2)	6
Remeasurements:					
Return on plan assets excluding amounts included in interest income	277	–	–	–	277
Gain from change in demographic assumptions	–	54	–	–	54
Loss from change in financial assumptions	–	(143)	–	–	(143)
Change in provision for tax on economic surplus available as a refund	–	–	(84)	–	(84)
Change in minimum funding requirement obligation	–	–	–	6	6
Included in other comprehensive income	277	(89)	(84)	6	110

Plan assets previously eliminated on consolidation	74	–	–	–	74
Employer's contributions	20	–	–	–	20
Benefit payments	(58)	58	–	–	–
At 31 December 2014	2,024	(1,457)	(184)	(13)	370

2013

	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January 2013	1,609	(1,360)	(87)	(25)	137
Interest income/(expense)	72	(60)	(4)	(1)	7
Administrative expenses	(3)	–	–	–	(3)
Included in profit or loss	69	(60)	(4)	(1)	4
Remeasurements:					
Return on plan assets excluding amounts included in interest income	(6)	–	–	–	(6)
Gain from change in demographic assumptions	–	42	–	–	42
Loss from change in financial assumptions	–	(43)	–	–	(43)
Experience losses	–	(1)	–	–	(1)
Change in provision for tax on economic surplus available as a refund	–	–	(5)	–	(5)
Change in minimum funding requirement obligation	–	–	–	9	9
Included in other comprehensive income	(6)	(2)	(5)	9	(4)
Employer's contributions	23	–	–	–	23
Benefit payments	(56)	56	–	–	–
At 31 December 2013	1,639	(1,366)	(96)	(17)	160

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2014		2013	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Fixed interest gilts	1,570	–	1,199	–
Index-linked bonds	373	–	508	–
Swaps	(24)	(24)	50	50
Properties	88	88	165	165
Hedge funds	80	80	76	76
Cash and other	354	–	645	–
Obligations for repayment of stock lending collateral received	(417)	–	(1,004)	–
	2,024	144	1,639	291

The actual return on plan assets was £353 million (2013: £66 million).

The economic value of the PGL Pension Scheme assets as at 31 December 2014, amounted to £2,047 million (2013: £1,734 million). For financial reporting purposes, the carrying value of the insurance policies effected by the PGL Pension Scheme with the Group have been eliminated on consolidation (including the longevity swap entered into during the period with PLL), resulting in reported assets of the PGL Pension Scheme as at 31 December 2014 of £2,024 million (2013: £1,639 million).

The Group ensures that the investment positions are managed within an asset liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension scheme. Within this framework an allocation of 85% of the scheme assets is invested in a combination of supranational debt and a liability hedging portfolio. The Liability Driven Investment ('LDI') portfolio is actively managed against a liability benchmark in order to hedge the duration and inflation risks.

The PGL Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value of cash in return which it typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bonds, hence the value of the gilts continues to be recognised as a scheme asset with a corresponding liability to repay the cash received as disclosed in the table above.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 39% (2013: 37%)
- Retirees: 61% (2013: 63%)

The weighted average duration of the defined benefit obligation at 31 December 2014 is 17 years (2013: 16 years).

Principal assumptions

The principal financial assumptions of the PGL Pension Scheme are set out in the table below:

	2014 %	2013 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	3.00	3.35
Rate of increase for deferred pensions ('CPI')	2.00	2.35
Discount rate	3.65	4.50
Inflation – RPI	3.00	3.35
Inflation – CPI	2.00	2.35

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the PGL Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with 90% of S1PXA base tables with future longevity improvements in line with CMI 2012 Core Projections and a long-term rate of improvement of 2% p.a. up to and including age 75 then decreasing linearly to 0% at age 110. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28 years and 30 years for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions as at 31 December 2014 is shown below:

2014

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,457	(60)	63	40	(38)	46	(44)

2013

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,366	(51)	56	42	(38)	45	(42)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

The UK Government currently intends to equalise benefits between males and females arising from the accrual of Guaranteed Minimum Pension ('GMP') requirements. Legislation will be implemented following completion of the current consultation on this matter. Once this consultation process has reached a conclusion, the Group will be able to quantify the impact of this change.

31. INTANGIBLE ASSETS

This note analyses the changes to the carrying value of the Group's intangible assets during the year and details the results of the impairment testing on goodwill and the intangible assets with an indefinite life. The accounting policy adopted in the preparation of this note is detailed in note 1(n).

2014

	Goodwill £m	Acquired in-force business £m	Customer relationships and other £m	Present value of future profits £m	Total £m
Cost or valuation					
At 1 January	96	2,048	448	32	2,624
Additions	–	–	–	–	–
Discontinued operations disposed of during the year	(57)	–	(151)	–	(208)
Revaluation	–	–	–	(9)	(9)
At 31 December	39	2,048	297	23	2,407
Amortisation					
At 1 January	–	(537)	(80)	–	(617)
Discontinued operations disposed of during the year	–	–	15	–	15
Charge for the year – from continuing operations	–	(98)	(15)	–	(113)
At 31 December	–	(635)	(80)	–	(715)
Carrying amount at 31 December	39	1,413	217	23	1,692
Amount recoverable after 12 months	39	1,315	202	23	1,579

2013

	Goodwill £m	Acquired business £m	Customer relationships and other £m	Present value of future profits £m	Total £m
Cost or valuation					
At 1 January	96	2,048	445	23	2,612

Additions	–	–	3	–	3
Revaluation	–	–	–	9	9
At 31 December	96	2,048	448	32	2,624
Amortisation					
At 1 January	–	(426)	(61)	–	(487)
Charge for the year					
From continuing operations	–	(111)	(16)	–	(127)
From discontinuing operations	–	–	(3)	–	(3)
At 31 December	–	(537)	(80)	–	(617)
Carrying amount at 31 December	96	1,511	368	32	2,007
Amount recoverable after 12 months	96	1,412	347	32	1,887

GOODWILL

Goodwill disposed of during the year relates to the disposal of the discontinued operations of Ignis on 1 July 2014 (see note 4.2).

The carrying value of goodwill has been tested for impairment at the period end. No impairment has resulted as the value in use of this intangible continues to exceed its carrying value. Value in use has been determined as the present value of certain future cash flows associated with the management services business of the Phoenix Life segment. The cash flows used in this calculation are consistent with those adopted by management in the Group's operating plan and, for the period 2019 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. The underlying assumptions of these projections include management's best estimates with regards to longevity, persistency, mortality, and morbidity.

Future cash flows have been valued using a discount rate of 8.1% (2013: 8.4%) for the management services business of the Phoenix Life segment.

Impairment tests have been performed using assumptions which management consider reasonable. Given the magnitude of the excess of the value in use over carrying value, management does not believe that a reasonably foreseeable change in key assumptions would cause the carrying value to exceed value in use.

The carrying amount of goodwill allocated to the Phoenix Life segment is £39 million (2013: £96 million).

ACQUIRED IN-FORCE BUSINESS

Acquired in-force business represents the difference between the fair value of the contractual rights acquired and obligations assumed under insurance and investment contracts with and without DPF and the liability measured in accordance with the Group's accounting policies for such contracts. This intangible is being amortised in accordance with the run-off of the book of business within the Phoenix Life segment.

The acquired in-force business is allocated to the Phoenix Life segment.

CUSTOMER RELATIONSHIPS AND OTHER

The customer relationships intangible at 31 December 2014 relates to vesting pension premiums which captures the new business arising from policies in-force at the acquisition date, specifically top-ups made to existing policies and annuities vested from matured pension policies. The total value of this customer relationship intangible at acquisition was £297 million and has been allocated to the Phoenix Life segment. This intangible is being amortised over a 20 year period.

The Budget proposals announced in March 2014 are expected to impact the level of future annuity business written by the Group. This is considered to be an indicator of impairment for the Group's vesting pension premiums intangible and as a result an impairment test on this intangible was carried out during the year.

No impairment has resulted as the value in use of the intangible is considered to exceed its carrying value. The value in use was determined as the present value of certain future cash flows associated with annuities vesting from matured pension policies. The cash flows used in this calculation are consistent with those adopted by management in the Group's operating plan for the next five years, and for the period 2019 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. The cash flows are based on future profit margins and risk-free projections of with-profits maturity payments that are largely consistent with the Group's MCEV basis. The cash flows also include an allowance for future profits earned by the service companies on the administration of vesting policies. The cash flows reflect management's best estimate of future take-up rates on guaranteed annuity rate business and non-guaranteed annuity rate business. Future cash flows have been valued using a discount rate of 11.2%.

The impairment test was carried out using assumptions which management consider reasonable. However, there remains considerable uncertainty as to the impact on policyholder behaviour of the changes to the annuities rules as the final provisions do not come into force until April 2015. Were actual experience with regard to the take-up rates for annuity business to differ significantly from management's current best estimate assumptions, there is a potential for the carrying value of the intangible to exceed the value in use.

The customer relationships intangible disposed of during the year relates to the investment management contracts ('IMCs') held within Ignis, the disposal of which was completed on 1 July 2014 (see note 4). The value of the IMCs as at 31 December 2013 was £148 million. Other intangibles of £3 million relating to capitalised software costs held within Ignis were also disposed of during the year.

The amortisation charge for customer relationships and other is presented separately in the consolidated income statement.

PRESENT VALUE OF FUTURE PROFITS ON NON-PARTICIPATING BUSINESS IN THE WITH-PROFIT FUND

The value of the present value of future profits is determined on a realistic basis and is allocated in full to the Phoenix Life segment. The principal assumptions used to calculate the present value of future profits are the same as those used in calculating the insurance contract liabilities given in note 40.5.1. Revaluation of the present value of future profits is charged or credited to the consolidated income statement as appropriate.

32. PROPERTY, PLANT AND EQUIPMENT

This note analyses the Group's tangible fixed assets which consist primarily of land and buildings at valuation, computer equipment and equipment and fittings. Fair value hierarchy disclosures for land and buildings at valuation are also included. The accounting policy adopted in the preparation of this note is detailed in note 1(o).

	2014 £m	2013 £m
Cost or valuation		
At 1 January	42	46
Additions	2	2
Discontinued operations disposed of during the year (see note 4.1)	(14)	–
Disposals	–	(6)
At 31 December	30	42
Depreciation		
At 1 January	(19)	(22)
Charge for the year – from discontinued operations	–	(3)
Discontinued operations disposed of during the year (see note 4.1)	4	–
Disposals	–	6
At 31 December	(15)	(19)
Carrying amount at 31 December	15	23

The useful lives of plant and equipment have been taken as follows: motor vehicles 3–4 years, computer equipment 3–4 years, furniture and office equipment 5–10 years. Owner-occupied property is depreciated over its estimated useful life, which is taken as 50 years.

Keppie Massie, an accredited independent valuer completed a valuation of the land and buildings at 31 December 2013 on an open market basis in accordance with the Royal Institution of Chartered Surveyors' requirements, which is deemed to equate to fair value. The fair value measurement for the land and buildings of £15 million has been categorised as a Level 3 fair value based on the non-observable inputs to the valuation technique used.

The following table shows a reconciliation from the opening to the closing fair value for the Level 3 land and buildings at valuation:

	2014 £m
At 1 January	15
Depreciation recognised in profit or loss	–
Remeasurement recognised in other comprehensive income	–
At 31 December	15
Unrealised gains for the year	–

The fair value of the land and buildings at valuation was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuation are expected rental value per square foot and capitalisation rate.

The fair value of the land and building valuation would increase (decrease) if the expected rental value per square foot were to be higher (lower) and the capitalisation rate were to be lower (higher).

33. INVESTMENT PROPERTY

This note gives details of the properties held by the Group for long-term rental yields or capital appreciation and fair value hierarchy disclosures for the investment properties. The accounting policy adopted in the preparation of this note is detailed in note 1(p).

	2014 £m	2013 £m
At 1 January	1,603	1,727
Additions	107	19
Improvements	7	6
Disposals	(59)	(221)
Gains on adjustments to fair value (recognised in profit and loss)	200	72
At 31 December	1,858	1,603
Unrealised gains on properties held at end of period	194	57

The property portfolio consists of a mix of commercial sectors, held by the life companies, £407 million (2013: £366 million), and by the Group's UK Commercial Property Trust, £1,265 million (2013: £1,046 million). The portfolio is spread geographically throughout the UK. Investment properties also include £186 million (2013: £191 million) of property reversions arising from sales of the NPI Extra Income Plan.

Commercial investment property is measured at fair value by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) guidelines with expected income and capitalisation rate as the key non-observable inputs.

The residential property reversions, an interest in customer's properties which the Group will realise upon their death, are valued using a DCF model based on the Group's proportion of the current open market value, and discounted for the expected lifetime of the policyholder. The open market value is measured by independent local property surveyors having appropriate recognised professional qualifications with reference to the condition of the property and local market conditions. The individual properties are valued triennially and indexed using regional house price indices to the 31 December 2014. The discount rate is a risk-free rate appropriate for the duration of the asset, adjusted for liquidity and mortality risk. The residential property reversions have been substantially refinanced under the arrangements with Santander as described in note 23.

The fair value measurement of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used. The following table shows the valuation techniques used in measuring the fair value of the investment properties, the significant non-observable inputs used, the inter-relationship between the key non-observable inputs and the fair value measurement of the investment properties:

Description	Valuation techniques	Significant non-observable inputs	Range (weighted average)
Commercial Investment Property (held by life companies)	Yield methodology	Expected income per sq. ft.	£3.34–£129.63 (£29.19)
		Capitalisation rate	3.65%–12.92% (5.62%)
Commercial Investment Property (held by the UK Commercial Property Trust)	Yield methodology	Expected income per sq. ft.	Retail: £8–£310 (£83)
			Office: £15–£75 (£35)
			Industrial: £4–£19 (£9)
			Leisure: £18–£40 (£31)
		Capitalisation rate	Retail: 3.5%–11.5% (5.6%)
			Office: 3.0%–7.5% (5.0%)
			Industrial: 5.0%–7.0% (5.7%)
			Leisure: 2.5%–6.0% (5.3%)
Residential Property Reversions (held by life companies)	DCF Model and RICS valuation	Mortality	130% IFL92C15 – Female
			130% IML92C15 – Male
		Discount rates	7 year Gilt Spot Rate + 1.7% margin

The estimated fair value of the commercial properties (held by life companies and UK Commercial Property Trust) would increase (decrease) if:

– the expected income were to be higher (lower); or

– the capitalisation rate were to be lower (higher).

– The fair value of the residential property reversions (held by life companies) would increase (decrease) if:

– the market value of the property were to be higher (lower);

– the life expectancy of the policyholders were to decrease (increase); or

– the discount rate were to be lower (higher).

Direct operating expenses (offset against rental income in the income statement) in respect of investment properties that generated rental income during the year amounted to £5 million (2013: £10 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £2 million (2013: £2 million).

34. FINANCIAL INSTRUMENTS

This note analyses the carrying values and fair values of the Group's financial assets and liabilities. The note also explains the methodologies applied in valuing our financial assets and liabilities that are carried at fair value and also when measured on another basis but where fair value is disclosed. An analysis is provided of these financial assets and liabilities within a fair value hierarchy, determined by the market observability of valuation inputs. The accounting policies adopted in the preparation of this note are detailed in notes 1(f), (g), (i), (j), (k) and (r).

34.1 FAIR VALUES

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2014:

2014

	Carrying value		
	Total £m	Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Loans and receivables at amortised cost	196	36	222
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	2,558	2,112	2,558
Designated upon initial recognition:			
Equities[1]	13,168	–	13,168
Investment in joint ventures[1]	133	–	133
Fixed and variable rate income securities	34,384	27,244	34,384
Collective investment schemes[1]	3,583	–	3,583
Total financial assets	54,022		54,048

	Carrying value		
	Total £m	Amounts due for settlement after 12 months £m	Fair value £m

Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	2,192	2,122	2,192
Designated upon initial recognition:			
Borrowings	184	184	184
Net asset value attributable to unitholders[1]	4,659	–	4,659
Investment contract liabilities[1]	8,451	–	8,451
Financial liabilities measured at amortised cost:			
Borrowings	1,578	1,425	1,698
Deposits received from reinsurers	408	375	408
Obligations for repayment of collateral received[2]	954	–	–
Total financial liabilities	18,426		17,592

1 These assets and liabilities have no expected settlement date.

2 These liabilities have no expected settlement date. As the obligations relate to the repayment of collateral received in the form of cash, the liability is stated at the value of the consideration received and therefore no fair value has been disclosed.

2013 Restated

	Carrying value		
	Total £m	Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Loans and receivables at amortised cost	1,977	145	1,985
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	1,966	1,008	1,966
Designated upon initial recognition:			
Equities[1]	13,913	–	13,913
Investment in joint ventures[1]	125	–	125
Fixed and variable rate income securities	35,510	25,978	35,510
Collective investment schemes[1]	3,772	–	3,772
	57,263		57,271
Less amounts classified as held for sale (note 4.2)	(55)	–	(55)
Total financial assets	57,208		57,216

	Carrying value		
	Total £m	Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	2,161	1,234	2,161
Designated upon initial recognition:			
Borrowings	186	186	186
Net asset value attributable to unitholders[1]	5,744	–	5,744
Investment contract liabilities[1]	8,578	–	8,578
Financial liabilities measured at amortised cost:			
Borrowings	2,173	1,997	2,194
Deposits received from reinsurers	385	350	385
Obligations for repayment of collateral received[2]	7,284	–	–
Total financial liabilities	26,511		19,248

34.2 FAIR VALUE HIERARCHY

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

Level 1 financial instruments

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

Level 2 financial instruments

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

Level 3 financial instruments

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

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

34.2.2 Fair value hierarchy of financial instruments

The tables below separately identify financial instruments carried at fair value from those measured on another basis but for which fair value is disclosed.

2014

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	18	2,540	–	2,558
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	12,315	149	704	13,168
Investment in joint ventures	–	–	133	133
Fixed and variable rate income securities	24,639	9,010	735	34,384
Collective investment schemes	2,579	923	81	3,583
	39,533	10,082	1,653	51,268
Total financial assets measured at fair value	39,551	12,622	1,653	53,826
Financial assets for which fair values are disclosed				
Loans and receivables at amortised cost	–	36	186	222
Total financial assets	39,551	12,658	1,839	54,048

Fair value hierarchy information for non-financial assets measured at fair value is included in note 32 for land and buildings at valuation and in note 33 for investment properties.

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	40	2,151	1	2,192
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	–	8,451	–	8,451
Borrowings	–	–	184	184
Net asset value attributable to unitholders	4,659	–	–	4,659
	4,659	8,451	184	13,294
Total financial liabilities measured at fair value	4,699	10,602	185	15,486
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	553	1,145	1,698
Deposits received from reinsurers	–	408	–	408
Total financial liabilities for which fair values are disclosed	–	961	1,145	2,106
Total financial liabilities	4,699	11,563	1,330	17,592

2013 Restated

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	49	1,917	–	1,966
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	13,136	149	628	13,913
Investment in joint ventures	–	–	125	125
Fixed and variable rate income securities	25,494	9,081	935	35,510
Collective investment schemes	2,591	1,065	116	3,772
	41,221	10,295	1,804	53,320
Less amounts classified as held for sale (note 4.2)	(55)	–	–	(55)

	41,166	10,295	1,804	53,265
Total financial assets measured at fair value	41,215	12,212	1,804	55,231
Financial assets for which fair values are disclosed				
Loans and receivables at amortised cost	–	1,869	116	1,985
Total financial assets	41,215	14,081	1,920	57,216

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	40	2,118	3	2,161
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	–	8,578	–	8,578
Borrowings	–	–	186	186
Net asset value attributable to unitholders	5,744	–	–	5,744
	5,744	8,578	186	14,508
Total financial liabilities measured at fair value	5,784	10,696	189	16,669
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	229	1,965	2,194
Deposits received from reinsurers	–	385	–	385
Total financial liabilities	5,784	11,310	2,154	19,248

34.2.3 Level 3 financial instrument sensitivities

Included in Level 3 investments are two property investment structures with a value of £59 million (2013: £15 million) within fixed and variable rate income securities and £133 million (2013 Restated: £125 million) within investment in joint ventures.

Both investments have been valued by taking the fair value of the property within the structures, which have been independently valued, less the fair value of the debt within the structures. The valuations are sensitive to movements in yields on the underlying property portfolio. An increase in yields of 25bps would reduce the value of the first investment by £8 million (2013: £8 million) and the second investment by £23 million (2013: £23 million). A reduction in yields of 25bps would increase the value of the first investment by £9 million (2013: £9 million) and the second investment by £25 million (2013: £25 million).

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

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

Included within fixed and variable rate securities are investments in local authority loans. These investments are valued using a simple calculation model taking a comparable UK Treasury stock and applying a credit spread to reflect reduced liquidity. The credit spread is derived from a sample broker quote. The valuations are sensitive to movements in this spread, an increase of 25 bps would decrease the value by £1 million (2013: £1 million) and a decrease of 25 bps would increase the value by £1 million (2013: £1 million).

Borrowings measured at fair value and categorised as Level 3 financial liabilities comprise the property reversion loans, measured using an internally developed model. The valuation is sensitive to increases (decreases) in the fair value of relevant residential property reversions which would result in an equivalent higher (lower) fair value of property reversion loans. Details of the valuation of the underlying residential property reversions are included in note 23.

34.2.4 Transfers of financial instruments between Level 1 and Level 2

2014

	From Level 1 to Level 2 **£m**	From Level 2 to Level 1 **£m**
Financial assets measured at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition		
Fixed and variable rate income securities	167	372
Collective investment schemes	2	–

2013 Restated

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Derivatives	–	5
Financial assets designated at fair value through profit or loss upon initial recognition		
Fixed and variable rate income securities	724	238
Collective investment schemes	243	–
Financial liabilities measured at fair value		
Derivatives	–	20

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

The application of the Group's fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads, have resulted in an overall net movement of financial assets from level 2 to level 1 in the period.

34.2.5 Movement in Level 3 financial instruments measured at fair value

2014

	At 1 January 2014 £m	Total gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2014 £m	Unrealised gains on assets held at end of period £m
Financial assets								
Financial assets designated at fair value through profit or loss upon initial recognition:								
Equities	628	40	95	(59)	–	–	704	60
Investment in joint ventures	125	8	–	–	–	–	133	8
Fixed and variable rate income securities	935	57	427	(502)	8	(190)	735	19
Collective investment schemes	116	5	5	(45)	–	–	81	5
Total financial assets	1,804	110	527	(606)	8	(190)	1,653	92

	At 1 January 2014 £m	Total (gains)/ losses in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2014 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	3	(2)	–	–	–	–	1	1
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	186	22	–	(24)	–	–	184	22
Total financial liabilities	189	20	–	(24)	–	–	185	23

During the year, updates to the Group's observations with regard to measures of market depth, bid-ask spreads and the extent to which inputs to the valuation of fixed and variable rate income securities are market observable resulted in a net transfer of financial assets from Level 3 to Levels 1 and 2.

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

2013 Restated

	At 1 January 2013 £m	Total (losses)/ gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2013 £m	Unrealised (losses)/gains on assets held at end of period £m
Financial assets								
Derivatives	12	(12)	–	–	–	–	–	(12)
Financial assets designated at fair value through profit or loss upon initial recognition:								
Equities	715	(45)	50	(131)	39	–	628	2
Investment in joint ventures	95	30	–	–	–	–	125	–
Fixed and variable rate income securities	500	104	827	(862)	390	(24)	935	70
Collective investment schemes	158	10	1	(40)	1	(14)	116	10
	1,468	99	878	(1,033)	430	(38)	1,804	82
Total financial assets	1,480	87	878	(1,033)	430	(38)	1,804	70

	At 1 January 2013 £m	Total losses in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2013 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	3	4	–	(4)	–	–	3	(8)
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	–	14	–	(22)	194	–	186	(15)
Net asset value attributable	70	–	–	(70)	–	–	–	–

to unitholders								
Total financial liabilities	73	18	–	(96)	194	–	189	(23)

During 2013, updates to the Group's observations with regard to the liquidity of certain equity and fixed and variable rate income securities resulted in a net transfer of financial assets into Level 3 from Levels 1 and 2.

Borrowings of £194 million were transferred from Level 2 to Level 3 during 2013 as a significant model input was no longer considered market observable.

34.3 COLLATERAL ARRANGEMENTS

34.3.1 Financial instrument collateral arrangements

The Group has no financial assets and financial liabilities that have been offset in the statement of consolidated financial position as at 31 December 2014 (2013: none).

The table below contains disclosures related to financial assets and financial liabilities recognised in the statement of consolidated financial position that are subject to enforceable master netting arrangements or similar agreements. Such agreements do not meet the criteria for offsetting in the statement of consolidated financial position as the Group has no current legally enforceable right to offset recognised financial instruments. Furthermore, certain related assets received as collateral under the netting arrangements will not be recognised in the statement of consolidated financial position as the Group does not have permission to sell or re-pledge, except in the case of default. Details of the Group's collateral arrangements in respect of these recognised assets and liabilities are provided below.

2014

		Related amounts not offset			
	Gross and net amounts of recognised financial assets £m	Financial instruments received £m	Cash collateral received £m	Derivative liabilities £m	Net amount £m
Financial assets					
OTC derivatives	2,540	405	870	1,082	183
Exchange traded derivatives	18	–	–	9	9
Stock lending	143	152	3	–	(12)
Repurchase arrangements	84	–	84	–	–
Total	2,785	557	957	1,091	180

		Related amounts not offset			
	Gross and net amounts of recognised financial liabilities £m	Financial instruments pledged £m	Cash collateral pledged £m	Derivative assets £m	Net amount £m
Financial liabilities					
OTC derivatives	2,152	424	537	1,082	109
Exchange traded derivatives	40	–	29	9	2
Total	2,192	424	566	1,091	111

2013 Restated

		Related amounts not offset			
	Gross and net amounts of recognised financial assets £m	Financial instruments received £m	Cash collateral received £m	Derivative liabilities £m	Net amount £m
Financial assets					
OTC derivatives	1,913	35	544	1,333	1
Exchange traded derivatives	53	–	19	15	19
Stock lending	6,734	130	6,743	–	(139)
Loans and receivables	1,789	1,902	–	–	(113)
Total	10,489	2,067	7,306	1,348	(232)

		Related amounts not offset			
	Gross and net amounts of recognised financial liabilities £m	Financial instruments pledged £m	Cash collateral pledged £m	Derivative assets £m	Net amount £m
Financial liabilities					
OTC derivatives	2,117	438	350	1,333	(4)
Exchange traded derivatives	40	–	24	15	1
Other	4	–	–	–	4
Total	2,161	438	374	1,348	1

34.3.2 Derivative collateral arrangements

Assets accepted

It is the Group's practice to obtain collateral to mitigate the counterparty risk related to over-the-counter ('OTC') derivatives usually in the form of cash or marketable financial instruments.

Where the Group receives collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised in the statement of consolidated financial position. The fair value of financial assets accepted as collateral for OTC derivatives but not recognised in the statement of consolidated financial position amounts to £405 million (2013: £35 million).

Where the Group receives collateral on OTC derivatives in the form of cash it is recognised in the statement of consolidated financial position along with a corresponding liability to repay the amount of collateral received, disclosed as 'Obligations for the repayment of collateral received'. The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2014 are set out below.

	OTC derivatives	
	2014	2013
	£m	£m
Financial assets	870	544
Financial liability	(870)	(544)

The maximum exposure to credit risk in respect of OTC derivative assets is £2,540 million (2013: £1,913 million) of which credit risk of £2,353 million (2013: £1,876 million) is mitigated by use of collateral arrangements (which are settled net after taking account of any OTC derivative liabilities owed to the counterparty).

Credit risk on exchange traded derivative assets of £18 million (2013: £53 million) is mitigated through regular margining and the protection offered by the exchange.

Assets pledged

The Group pledges collateral in respect of its OTC derivative liabilities.

Where the Group pledges collateral in the form of marketable financial instruments and retains all the risks and rewards of the transferred assets, it continues to be recognised in the statement of consolidated financial position. Cash collateral pledged where the counterparty retains the risks and rewards is derecognised from the statement of consolidated financial position and a corresponding receivable is recognised for its return. The value of assets pledged at 31 December 2014 in respect of OTC derivative liabilities of £2,152 million (2013: £2,117 million) amounted to £961 million (2013: £788 million).

34.3.3 Stock lending collateral arrangements

The Group lends listed financial assets held in its investment portfolio to other institutions. In 2014 the stocklending programme has been wound down.

The Group conducts its stock lending programme only with well-established, reputable institutions in accordance with established market conventions. The financial assets do not qualify for derecognition as the Group retains all the risks and rewards of the transferred assets except for the voting rights.

It is the Group's practice to obtain collateral in stock lending transactions, usually in the form of cash or marketable financial instruments.

Where the Group receives collateral in the form of marketable securities which it is not permitted to sell or re-pledge except in the case of default, such collateral is not recognised in the statement of consolidated financial position. The fair value of financial assets accepted as such collateral amounts to £152 million (2013: £130 million).

Where the Group receives collateral in the form of cash it is recognised in the statement of consolidated financial position along with a corresponding liability to repay the amount of the collateral received. The amount recognised as a financial asset and a financial liability at 31 December 2014 is £3 million (2013: £6,743 million) and £3 million (2013: £6,743 million) respectively.

The maximum exposure to credit risk in respect of stock lending transactions is £143 million (2013: £6,734 million) of which credit risk of £143 million (2013: £6,734 million) is mitigated through the use of collateral arrangements.

34.3.4 Loans and receivables collateral arrangements

Until November 2014, the Group invested in Tri-party loans with Euroclear, a financial services company, whereby it lent cash to other reputable institutions. The cash on loan was derecognised and a loans and receivables balance recognised in the statement of consolidated financial position. The amount recognised as a financial asset in this regard as at 31 December 2013 was £1,789 million.

It is the Group's practice to obtain collateral when undertaking such transactions. Such collateral is received in the form of marketable financial instruments which the Group is not permitted to sell or re-pledge except in the case of default, and is therefore not recognised in the statement of consolidated financial position. The fair value of such financial assets accepted as collateral at 31 December 2013 amounted to £1,902 million.

The maximum exposure to credit risk in respect of these loan transactions at 31 December 2013 was £1,789 million and this was fully mitigated through the use of collateral arrangements.

34.3.5 Repurchase agreements

In November 2014 the Group entered into agreements to sell securities in the form of UK Treasury Stocks to another party with an agreement to repurchase these stocks at an agreed date and price in the future. This is effectively a short term collateralised cash loan with the securities being used as collateral. These arrangements are completed only with well-established, reputable institutions in accordance with established market conventions.

Collateral provided does not qualify for derecognition as the Group retains the risk and rewards, although the counterparty has the right to sell or repledge these assets. The carrying value of the listed financial assets transferred that have not been derecognised as at 31 December 2014 amounted to £84 million of fixed and variable interest rate securities.

The maximum exposure to credit risk in respect of these repurchase transactions as at 31 December 2014 was £84 million and this was fully mitigated through the use of collateral arrangements.

34.3.6 Other collateral arrangements

Collateral has also been pledged and charges granted in respect of certain of the Group's borrowings. The details of these arrangements are set out in note 23.

35. STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group has determined that all of its investments in collective investment schemes are structured entities. In addition, a number of debt security structures, private equity funds and the Group's joint venture have been identified as structured entities. The Group has assessed that it has interests in both consolidated and unconsolidated structured entities as shown below:

- unit trusts;
- OEICs;
- SICAVs;
- private equity funds ('PEFs');
- asset backed securities;
- collateralised debt obligation ('CDOs'); and
- other debt structures.

The Group's holdings in the above investments are subject to the terms and conditions of the respective fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Group holds redeemable shares or units in each of the funds. The funds are managed by an internal asset manager (up to 1 July 2014) and external asset managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by asset managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

35.1 INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

The Group has determined that where it has control over funds, these investments are consolidated structured entities.

At 31 December 2014 the Group has granted loans to the PGH EBT of £6 million (2013: £1 million). Further loans are expected to be granted in 2015. Details are provided in note 18.

As at the reporting date the Group has no intention to provide financial or other support in relation to any consolidated structured entity.

35.2 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group has interests in unconsolidated structured entities. These investments are held as financial assets in the Group's consolidated statement of financial position held at fair value through profit or loss. Any change in fair value is included in the consolidated income statement in 'net investment income'. Dividend and interest income is received from these investments.

A summary of the Group's interest in unconsolidated structured entities is included below. These are shown according to the financial asset categorisation in the consolidated statement of financial position and further analysed by type of fund in which the entity is invested.

	Carrying value of financial assets	
	2014 £m	2013 £m
Equities	367	251
Collective Investment schemes:		
Directly held collective investment schemes[1]:		
Equities	808	816
Bonds	303	381
Property	280	285
Short term liquidity	873	765
Indirectly held collective investment schemes[2]	1,319	1,520
Fixed and variable rate income securities:		
CDOs	224	216
Asset backed securities	517	553
Bonds	–	15
Investment in joint ventures:		
Property (see note 35.3)	133	125
	4,824	4,927

1 Directly held collective investment schemes refer to those structured entities directly invested in by Group companies. Such investments have been analysed by reference to the predominant asset class the structure is investing in.

2 Indirectly held collective investment schemes are those interests in structured entities that are held by collective investment schemes over which it has been assessed that the Group exercises overall control and have been consolidated into the financial statements.

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are largely less than 50% and as such the size of these structured entities are likely to be significantly higher than their carrying value.

Details of commitments to subscribe to private equity funds and other unitised assets are included in note 42.

35.3 INTERESTS IN JOINT VENTURES

The Group invests in one investment property joint venture which is incorporated and operates in the UK. The Group holds a 50% interest in the joint venture which is held through the Pearl Breakfast Unit Trust. The investment is measured at fair value through profit or loss.

The carrying value of the Group's interest in the joint venture, and related financial information representing the Group's share is as follows:

	2014 £m	2013 Restated £m
At 1 January	125	95
Profit after tax	8	30
At 31 December	133	125
Fair value of properties	469	465
Fair value of debt	(344)	(343)
Net current assets	8	3
	133	125

36. OTHER RECEIVABLES

This note analyses the Group's other receivables.

	2014 £m	2013 Restated £m
Investment broker balances	98	248
Cash collateral pledged	597	422
Other debtors	55	73
	750	743
Amount recoverable after 12 months	–	–

37. CASH AND CASH EQUIVALENTS

This note analyses the cash and cash equivalents figure included in the statement of consolidated cash flows. The accounting policy adopted in the preparation of this note is detailed in note 1(t).

	2014 £m	2013 Restated £m
Bank and cash balances	1,007	1,210
Short-term deposits (including demand and time deposits)	4,060	8,084
	5,067	9,294

All deposits are subject to fixed interest rates. The carrying amounts approximate to fair value at the period end. Cash and cash equivalents in long-term business operations and collective investment schemes of £4,821 million (2013 Restated: £8,965 million) are primarily held for the benefit of policyholders and so are not generally available for use by the owners.

38. CASH FLOWS FROM OPERATING ACTIVITIES

This note gives further detail behind the 'cash (utilised)/generated by operations' figure in the statement of consolidated cash flows.

	2014 £m	2013 Restated £m
Profit for the period before tax from continuing operations	465	241
Loss for the period before tax from discontinued operations (see note 4.1.1)	(27)	(51)
Profit for the period before tax	438	190
Non-cash movements in profit for the year before tax		
Fair value gains on:		
Investment property	(200)	(72)
Financial assets	(3,494)	(281)
Change in fair value of borrowings	19	36
Depreciation of property, plant and equipment	–	3
Amortisation of intangible assets	98	130
Change in present value of future profits	9	(9)
Change in unallocated surplus	11	77
Share-based payment charge	7	6
Interest expense on borrowings	156	230
Net interest (income)/expense on Group defined benefit pension scheme asset/liability	(4)	1
Other expenses and losses on pension schemes	3	12
Gain on transfer of business (see note 4.3)	–	(42)
Gain on sale of BAGI (see note 4.4)	(4)	–
Gain on divestment of Ignis (see note 4.1.1)	(107)	–
Decrease in investment assets	5,556	7,192
Decrease in reinsurance assets	43	349
Increase/(decrease) in insurance contract and investment contract liabilities	37	(2,519)
Increase/(decrease) in deposits received from reinsurers	23	(69)

Decrease in obligation for repayment of collateral received	(6,330)	(3,174)
Net decrease/(increase) in working capital	23	(1,037)
Cash (utilised)/generated by operations	(3,716)	1,023

Separate disclosure of the cash flows from operating activities generated by discontinued operations is provided in note 4.1.1.

39. CAPITAL STATEMENT

This note sets out the Group's approach to managing capital, provides an analysis of available capital resources and explains the different regulatory capital requirements of the Group and its life companies.

CAPITAL MANAGEMENT FRAMEWORK

The Group's Capital Management Framework is designed to achieve the following objectives:

provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary excess capital;

ensure sufficient liquidity to meet obligations to policyholders and other creditors; and

optimise the overall gearing to ensure an efficient capital base.

The framework comprises a suite of capital management policies that govern the allocation of capital throughout the Group to achieve the framework objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, owner dividend policy and regulatory capital requirements.

The capital policy of each life company is set and monitored by each life company Board. These policies ensure there is sufficient capital within each life company to meet regulatory capital requirements under a range of stress conditions. The capital policy of each life company varies according to the risk profile and financial strength of the company.

Regulatory capital adequacy at a Group level is calculated at the ultimate insurance parent undertaking which is PLHL. PLHL aims to maintain Group regulatory surplus at least equal to the capital buffers agreed with the PRA.

The capital policy of each Group holding company is designed to ensure that there is sufficient liquidity to meet creditor obligations through the combination of cash buffers and cash flows from the Group's operating companies.

GROUP CAPITAL

Capital resources

The primary sources of capital used by the Group comprise equity shareholder funds as measured on an MCEV basis, the Perpetual Reset Capital Securities and shareholder borrowings. This is analysed as follows:

	Notes	2014 £m	2013 £m
Total IFRS equity attributable to owners of the parent[1]		2,365	1,909
Adjustments between IFRS equity attributable to owners of the parent and MCEV net worth[2]		(1,899)	(1,788)
MCEV value of in-force business[2]		2,181	2,257
Group MCEV		2,647	2,378
Gross shareholder debt:			
Perpetual Reset Capital Securities	20	408	408
Shareholder borrowings	23	1,275	1,857
Difference between IFRS and MCEV carrying values of shareholder borrowings		78	(4)
Gross MCEV		4,408	4,639

1 As shown in the consolidated statement of financial position.

2 As detailed in the reconciliation of Group IFRS equity to MCEV net worth in the MCEV financial statements.

Leverage

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

Further detail on the Group's gearing calculation (unaudited) is provided in the business review on page 34.

Regulatory capital requirements of the Group

Insurance Groups' Directive ('IGD')

PRA regulated insurance groups (including their holding companies) are also required to assess capital adequacy on a Group wide basis to enable the PRA to assess both the level of insurance and financial risk within the Group and the capital resources available to cover that risk. The assessment is known as the IGD.

The Group's IGD assessment is made at the ultimate insurance parent undertaking within the EEA, which is PLHL.

The capital statement shown below presents the total capital that the Group manages on a Pillar 1 basis in respect of its life insurance companies. It is different from the total capital available in the IGD calculation on the basis that the IGD is assessed at the PLHL level and is subject to different rules pertaining to its calculation. For example, due to the Group's current corporate structure, certain of the Group's subsidiaries are only included in the IGD calculation at 75% of their regulatory value, including capital requirements. The capital statement includes these subsidiaries in full. This difference and other adjustments amount to a reduction of £739 million (2013: £905 million) in Phoenix Life available capital resources of £6,317 million (estimated) (2013 (actual): £6,289 million) compared with PLHL Group Capital Resources of £5,582 million (estimated) (2013 (actual): £5,384 million). Further detail of the PLHL IGD position (unaudited) is provided in the business review on page 33.

PLHL ICA

The Group undertakes a further group solvency calculation, the 'PLHL ICA', at the same level at which the IGD calculation is performed. This involves an assessment, on an economic basis, of the capital resources and requirements arising from the obligations and risks which exist outside of the life companies.

For this measure the capital resources include the surplus over capital policy in the life companies and the net assets of the holding companies, less the pension scheme obligations on an economic basis. The capital requirements relate to the risks arising outside of the life companies including those in relation to the Group's staff pension schemes, offset by Group diversification benefits. As agreed with the PRA the Group aims to ensure that PLHL maintains an ICA surplus of at least £150 million. Further detail of the PLHL ICA position is provided in the business review (unaudited) on page 33.

Regulatory capital requirements of the life companies

Each UK life company and the Group must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the PRA. In addition to EU-directive-based 'Pillar 1' and group capital requirements, the PRA has also stipulated a 'Pillar 2' of risk-based capital requirements that have been implemented in the UK. A life company's actual capital requirement is based on whichever of the Pillar 1 or Pillar 2 requirement turns out to be more onerous for the company. Each life company generally holds an amount of capital that is greater than the minimum required amount to allow for adverse events in the future that may use capital and might otherwise cause the company to fail the minimum level of regulatory capital test.

Pillar 1

With the exception of with-profit businesses, the regulatory capital requirement under Pillar 1 is the total amount held in respect of investment, expense and insurance risks (the 'long-term insurance capital requirement' ('LTICR')) and any additional amounts required to cover the more onerous of two specified stress tests (the 'resilience capital requirement' ('RCR')). The regulatory capital requirement is then deducted from the available capital resources to give the excess capital on a regulatory basis.

An alternative test to the RCR is required under Pillar 1 in respect of with-profit funds which may result in an additional capital requirement referred to as the 'with-profit insurance capital component' ('WPICC').

Pillar 2

The Pillar 2 capital requirements are based on a self-assessment methodology, called the 'Individual Capital Assessment' ('ICA'). This methodology determines the capital requirement to ensure that the life company's realistic liabilities can be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a one in 200 year event. The PRA reviews each life company's ICA and may impose additional capital requirements if necessary in the form of 'Individual Capital Guidance' ('ICG').

Regulatory capital position statement for the life companies

The purpose of the capital position statement is to set out the Pillar 1 capital resources of the Group's life companies calculated in accordance with the regulatory rules applicable to individual life companies. It provides an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital position statement also provides a reconciliation of the life companies owners' funds to regulatory capital and an analysis of the regulatory capital between the Group's with-profits funds, non-participating business and life business owners' funds.

The Group has a number of internal loan arrangements in place, which allow the Group to provide capital support to other areas of the business. Restrictions apply to certain of these arrangements which require the PRA to approve the repayment of these loan arrangements. In addition to these internal loan arrangements, the Group has in place a number of internal reinsurance contracts which are structured to manage the capital position between certain life funds.

The available capital resources in each part of the business are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

With-profit funds – any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and owners. In 90:10 with-profit funds, policyholders are entitled to at least 90% of the distributed profits while owners receive the balance. In 100:0 with-profit funds, policyholders are entitled to 100% of the distributed profits. Any distribution to the owners would be subject to a tax charge which, for some funds, would be deducted from the amount received by owners.

Non-participating funds – any available surplus held in these funds is attributable to owners. Capital within the non-participating funds may be made available to meet capital requirements elsewhere in the Group subject to meeting regulatory and legal requirements, and after consideration of the internal capital requirements of the relevant fund and company. Any transfer of surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.

The capital statement and movement analysis that follows presents information about the capital resources for the Group's UK life businesses.

2014

	With-profit (see below) £m	Non-participating £m	Phoenix Life owners' funds £m	Total Phoenix Life business £m	Other activities and consolidation adjustments[4] £m	Group total £m
Owners' funds held outside long-term fund	–	–	1,590	1,590	476	2,066
Owners' funds held in long-term fund	–	299	–	299	–	299
Total owners' funds	–	299	1,590	1,889	476	2,365
Adjustments onto a regulatory basis:						
Unallocated surplus	965	16	–	981		
Adjustments to assets[1]	(34)	(142)	(703)	(879)		
Adjustments to liabilities[2]	3,945	(90)	37	3,892		
Other qualifying capital:						
Subordinated debt[3]	–	–	434	434		
Contingent loans	273	(13)	(260)	–		
Total available capital resources	5,149	70	1,098	6,317		

With-Profit

2014

	Pearl WPF £m	PLL PWP £m	PLL BWP £m	SMA WPF £m	SPL WPF £m	Other £m	Total £m
Owners' funds held outside long-term fund	–	–	–	–	–	–	–
Owners' funds held in long-term fund	–	–	–	–	–	–	–
Total owners' funds	–	–	–	–	–	–	–
Adjustments onto a regulatory basis:							
Unallocated surplus	335	142	252	47	63	126	965
Adjustments to assets[1]	–	–	(9)	–	–	(24)	(33)
Adjustments to liabilities[2]	1,282	391	1,209	221	483	359	3,945
Other qualifying capital:							
Subordinated debt	–	–	–	–	–	–	–
Contingent loans	–	–	–	–	–	273	273
Total available capital resources	1,617	533	1,452	268	546	734	5,150

Notes

1 Regulatory adjustments to assets reflect adjustments to derecognise inadmissible assets such as intangibles and deferred tax assets as well as those adjustments that are necessary where asset and counterparty exposures exceed the prescribed regulatory limits.

2 Regulatory adjustments to liabilities primarily reflect differences between the realistic valuation basis for the with-profit business used in calculating owners' funds on an IFRS basis, and the regulatory valuation basis used to calculate the PRA peak 1 capital resources.

3 Of the £434 million ((2013: £450 million) subordinated debt attributed to the Phoenix Life segment of the Group, £234 million (2013: £250 million) is internal to the Group. The remaining £200 million (2013: £200 million) is external subordinated debt, see note 23 for details.

4 'Other activities and consolidation adjustments' represent the consolidated owners' funds arising outside of the Phoenix Life business. This includes the owners' funds of the holding companies of the Group plus the value of the acquired in-force business net of the consolidation adjustments to eliminate the cost of the Group's investment in the Phoenix Life business in the form of equity capital and subordinated loans.

2013

	With-profit (see below) £m	Non-participating £m	Phoenix Life owners' funds £m	Total Phoenix Life business £m	Other activities and consolidation adjustments[4] £m	Group total £m
Owners' funds held outside long-term fund	–	–	1,741	1,741	(171)	1,570
Owners' funds held in long-term fund	–	339	–	339	–	339
Total owners' funds	–	339	1,741	2,080	(171)	1,909
Adjustments onto a regulatory basis:						
Unallocated surplus	953	17	–	970		
Adjustments to assets[1]	(72)	(203)	(758)	(1,033)		
Adjustments to liabilities[2]	3,870	(94)	46	3,822		
Other qualifying capital:						
Subordinated debt[3]	–	–	450	450		
Contingent loans	272	–	(272)	–		
Total available capital resources	5,023	59	1,207	6,289		

With-Profit
2013

	Pearl WPF £m	PLL PWP £m	PLL BWP £m	SMA WPF £m	SPL WPF £m	Other £m	Total £m
Owners' funds held outside long-term fund	–	–	–	–	–	–	–
Owners' funds held in long-term fund	–	–	–	–	–	–	–
Total owners' funds	–	–	–	–	–	–	–
Adjustments onto a regulatory basis:							
Unallocated surplus	330	121	255	35	90	122	953
Adjustments to assets[1]	–	(9)	(12)	(2)	(7)	(42)	(72)
Adjustments to liabilities[2]	1,166	504	1,102	146	532	420	3,870
Other qualifying capital:							
Contingent loans	–	–	–	–	–	272	272
Total available capital resources	1,496	616	1,345	179	615	772	5,023

An analysis of the movement in available capital resources for the period 1 January 2014 to 31 December 2014 is shown below:

	With-profit								
	Pearl WPF £m	PLL PWP £m	PLL BWP £m	SMA WPF £m	SPL WPF £m	Other £m	Non-participating £m	Phoenix Life owners' funds £m	Total Phoenix Life business £m
Total available capital resources at 1 January 2014	1,496	616	1,345	179	615	772	59	1,207	6,289
Regular surplus	–	–	(5)	12	9	2	109	–	127
Investment return	366	64	288	176	94	84	(50)	37	1,059
Cost of bonus	(183)	(179)	(147)	(35)	(129)	(107)	–	70	(710)

Financing Costs	–	–	–	–	–	–	–	(15)	(15)
Intragroup Loan Interest	–	–	–	–	–	–	11	19	30
Changes in methodology and assumptions:									
Longevity	(31)	(15)	1	(14)	(6)	(18)	26	–	(57)
Persistency	–	–	–	–	–	1	–	–	1
Model and methodology	(15)	29	15	(51)	5	(1)	89	–	71
Management actions:									
Distributions made by Phoenix Life	–	–	–	–	–	–	–	(466)	(466)
Corporate restructuring	(6)	11	(2)	–	1	43	(15)	–	32
New business and other factors:									–
Intragroup capital movement	–	–	–	–	–	(18)	(209)	214	(13)
Adjustment for internal loans in excess of counterparty limits	–	–	–	–	–	–	–	63	63
Other	(10)	7	(43)	1	(43)	(25)	51	(32)	(94)
Total available capital resources at 31 December 2014	1,617	533	1,452	268	546	733	71	1,097	6,317

An analysis of the movement in available capital resources for the period 1 January 2013 to 31 December 2013 is shown below:

	With-profit								
	Pearl WPF £m	PLL PWP £m	PLL BWP £m	SMA WPF £m	SPL WPF £m	Other £m	Non-participating £m	Phoenix Life owners' funds £m	Total Phoenix Life business £m
Total available capital resources at 1 January 2013	1,287	706	1,204	241	700	751	33	1,610	6,532
Regular surplus	(3)	–	(17)	14	7	19	173	–	193
Investment return	182	74	290	3	53	104	(12)	(13)	681
Cost of bonus	(165)	(223)	(144)	(40)	(143)	(105)	–	81	(739)
Financing Costs	–	–	–	–	–	(3)	–	(11)	(14)
Intragroup Loan Interest	–	–	–	–	–	–	10	(2)	8
Changes in methodology and assumptions:									
Longevity	3	7	1	4	3	(8)	–	–	10
Expenses	65	(2)	–	2	–	(1)	(8)	–	56
Persistency	–	–	–	–	–	5	(5)	–	–
Morbidity	–	–	–	–	–	–	–	–	–
Model and methodology	127	55	16	(5)	(7)	95	12	–	293
Management actions:									
Distributions made by Phoenix Life	–	–	–	–	–	–	–	(481)	(481)
Corporate restructuring	–	–	–	–	–	15	162	(9)	168
New business and other factors:									
Intragroup capital movement	–	–	–	–	–	(130)	(242)	177	(195)
Adjustment for internal loans in excess of counterparty limits	–	–	–	–	–	–	(75)	(92)	(167)
Other	–	(1)	(5)	(40)	2	30	11	(53)	(56)
Total available capital resources at 31 December 2013	1,496	616	1,345	179	615	772	59	1,207	6,289

Changes in methodology and assumptions

Changes to capital resources arising from changes in methodology and assumptions occur in the normal course of the assumption-setting process and reflect changes in available data inputs.

Management actions

The management actions that have had the most significant impact on available capital resources of the Phoenix Life segment of the Group during the year to 31 December 2014 are dividend payments to Group entities and restructuring activities, notably the divestment of Ignis and the reinsurance agreement entered into with Guardian effective 1 January 2014.

40. RISK MANAGEMENT

This note sets out the major risks that the Group businesses are exposed to and describes the Group's approach to managing these. The Group's risk management framework is described in the risk management commentary on pages 36 to 41 of the Annual Report and Accounts.

40.1 RISK AND CAPITAL MANAGEMENT OBJECTIVES

The risk management objectives and policies of the Group are based on the requirement to protect the Group's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the Group can meet its various cash flow requirements. Subject to this, the Group seeks to use available capital to achieve increased returns, balancing risk and reward, to generate additional value for policyholders and shareholders.

In pursuing these objectives, the Group deploys financial and other assets and incurs insurance contract liabilities and financial and other liabilities. Financial and other assets principally comprise investments in equity securities, fixed and variable rate income securities, collective investment schemes, property, derivatives, reinsurance, trade and other receivables, and banking deposits. Financial liabilities principally comprise investment contracts, borrowings for financing purposes, derivative liabilities and net asset value attributable to unitholders.

40.2 FINANCIAL RISK AND THE ASSET LIABILITY MANAGEMENT ('ALM') FRAMEWORK

The use of financial instruments naturally exposes the Group to the risks associated with them, mainly, market risk, credit risk and financial soundness risk.

Responsibility for agreeing the financial risk profile rests with the board of each life company, as advised by investment managers, internal committees and the actuarial function. In setting the risk profile, the board of each life company will receive advice from the appointed investment managers, the relevant with-profit actuary and the relevant actuarial function holder as to the potential implications of that risk profile with regard to the probability of both realistic insolvency and of failing to meet the regulatory minimum capital requirement. The actuarial function holder will also advise the extent to which the investment risk taken is consistent with the Group's commitment to treat customers fairly.

Derivatives are used in a number of the Group's funds, within policy guidelines agreed by the board of each life company and overseen by investment committees of the boards of each life company supported by management oversight committees. Derivatives are primarily used for risk hedging purposes or for efficient portfolio management, including the activities of the Group's Treasury function.

More detail on the Group's exposure to financial risk is provided in note 40.3 below.

The Group is also exposed to insurance risk arising from its Phoenix Life segment. Life insurance risk in the Group arises through its exposure to longevity, persistency, mortality and to other variances between assumed and actual experience. These variances can be in factors such as persistency levels and management and administrative expenses. More details on the Group's exposure to insurance risk are provided in note 40.5 below.

The Group's overall exposure to market and credit risk is monitored by appropriate committees, which agree policies for managing each type of risk on an ongoing basis, in line with the investment strategy developed to achieve investment returns in excess of amounts due in respect of insurance contracts. The effectiveness of the Group's ALM relies on the matching of assets and liabilities arising from insurance and investment contracts, taking into account the types of benefits payable to policyholders under each type of contract. Separate portfolios of assets are maintained for with-profit business funds, (which includes all of the Group's participating business), non-linked non-profit funds and unit-linked funds.

40.3 FINANCIAL RISK ANALYSIS

Transactions in financial instruments result in the Group assuming financial risks. These include credit risk, market risk and financial soundness risk. Each of these are described below, together with a summary of how the Group manages them.

40.3.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities.

There are two principal sources of credit risk for the Group:

- Credit risk which results from direct investment activities, including investments in fixed and variable rate income securities, derivatives, collective investment schemes and the placing of cash deposits; and
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the lending of securities.

The amount disclosed in the statement of consolidated financial position in respect of all financial assets, together with rights secured under off balance sheet collateral arrangements, and excluding those that back unit-linked liabilities, represents the Group's maximum exposure to credit risk.

The impact of non-government fixed and variable rate income securities and, inter alia, the change in market credit spreads during the year is fully reflected in the values shown in these financial statements. Credit spreads are the excess of corporate bond yields over gilt yields to reflect the higher level of risk. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap rates.

There is an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with-profit funds, non-profit funds (where risks and rewards fall wholly to shareholders), shareholders' funds and to unit-linked funds to the extent of management fees generated by the Group.

The Group holds £3,589 million (2013: £3,319 million) of corporate bonds which are used to back annuity liabilities in non-profit funds (this excludes the liabilities reinsured to Opal Reassurance Limited). These annuity liabilities include an aggregate credit default provision of £266 million (2013: £238 million) to fund against the risk of default.

A 100 basis point widening of credit spreads, with all other variables held constant and no change in assumed expected defaults, would result in a decrease in the profit after tax in respect of a full financial year, and in equity, of £97 million (2013: £84 million).

A 100 basis point narrowing of credit spreads, with all other variables held constant and no change in assumed expected defaults, would result in an increase in the profit after tax in respect of a full financial year, and in equity, of £102 million (2013: £81 million).

Credit risk is managed by the monitoring of aggregate Group exposures to individual counterparties and by appropriate credit risk diversification. The Group manages the level of credit risk it accepts through credit risk tolerances. In certain cases, protection against exposure to particular credit risk types may be achieved through the use of derivatives. The credit risk borne by the shareholder on with-profit policies is dependent on the extent to which the underlying insurance fund is relying on shareholder support.

Quality of credit assets

An indication of the Group's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table provides information regarding the aggregate credit exposure split by credit rating (ratings obtained from reputable rating agencies are used in deriving the table below):

2014

	AAA £m	AA £m	A £m	BBB £m	BB £m	B and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and receivables	–	65	92	–	–	3	33	3	196

Derivatives	–	–	2,146	347	–	–	64	1	2,558
Fixed and variable rate income securities	4,777	17,184	6,824	4,065	529	505	441	59	34,384
Reinsurers' share of insurance contract liabilities	–	631	2,138	2	–	–	1	–	2,772
Cash and cash equivalents	54	822	4,057	27	2	–	–	105	5,067
	4,831	18,702	15,257	4,441	531	508	539	168	44,977

2013 Restated

	AAA £m	AA £m	A £m	BBB £m	BB £m	B and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and receivables	–	–	1,796	–	98	10	37	36	1,977
Derivatives	–	–	1,717	5	–	14	165	65	1,966
Fixed and variable rate income securities	8,513	16,241	4,974	3,992	468	385	776	111	35,460
Reinsurers' share of insurance contract liabilities	–	722	2,127	2	–	–	–	–	2,851
Cash and cash equivalents	2,070	6,329	719	52	5	–	–	119	9,294
	10,583	23,292	11,333	4,051	571	409	978	331	51,548

Non-equity based derivatives are included in the credit risk table above.

Credit ratings have not been disclosed in the above tables for holdings in unconsolidated collective investment schemes. The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these vehicles.

The Group maintains accurate and consistent risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories of assets and are assessed and updated regularly.

A further indicator of the quality of the Group's financial assets is the extent to which they are neither past due nor impaired. The following table gives information regarding the ageing of financial assets that are past due but not impaired and the carrying value of financial assets that have been impaired.

2014

	Neither past due nor impaired £m	Less than 30 days £m	30–90 days £m	Greater than 90 days £m	Impaired £m	Unit-linked £m	Carrying value £m
Loans and receivables	190	–	–	–	3	3	196
Derivatives	2,557	–	–	–	–	1	2,558
Fixed and variable rate income securities	34,325	–	–	–	–	59	34,384
Reinsurers' share of insurance contract liabilities	2,772	–	–	–	–	–	2,772
Reinsurance receivables	67	–	–	–	–	–	67
Prepayments and accrued income	405	–	–	–	–	–	405
Other receivables	750	–	–	–	–	–	750
Cash and cash equivalents	4,962	–	–	–	–	105	5,067

2013 Restated

	Neither past due nor impaired £m	Less than 30 days £m	30–90 days £m	Greater than 90 days £m	Impaired £m	Unit-linked £m	Carrying value £m
Loans and receivables	1,934	–	–	–	7	36	1,977
Derivatives	1,883	18	–	–	–	65	1,966
Fixed and variable rate income securities	35,349	–	–	–	–	111	35,460
Reinsurers' share of insurance contract liabilities	2,851	–	–	–	–	–	2,851
Reinsurance receivables	34	–	–	–	–	–	34
Prepayments and accrued income	462	–	–	–	–	–	462
Other receivables	741	2	–	–	–	–	743
Cash and cash equivalents	9,175	–	–	–	–	119	9,294

Please refer to page 200 for additional life company asset disclosures which include the life companies' exposure to peripheral Eurozone debt securities. Peripheral Eurozone is defined as Portugal, Spain, Italy, Ireland and Greece. The Group's exposure to peripheral Eurozone debt continues to be relatively small compared to total assets under management.

Assets backing unit-linked business have not been analysed in these tables as the credit risk on such financial assets is borne by the policyholders. However, these assets have been included as a separate column in these tables to reconcile the information to the statement of consolidated financial position. Shareholder credit exposure on unit-linked assets is limited to the level of fee income to the extent it is dependent on the underlying assets.

Concentration of credit risk

Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group has most of its counterparty risk within its life business and this is monitored by the counterparty limits contained within the investment guidelines and investment management agreements, overlaid by regulatory requirements and the monitoring of aggregate counterparty exposures across the Group against additional Group counterparty limits. Counterparty risk in respect of OTC ('over- the-counter') derivative counterparties is monitored using a Value-at-Risk (VaR) exposure metric.

The Group is also exposed to concentration risk with outsource partners. This is due to the nature of the outsourced services market. The Group operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees and measured though the ICA stress and scenario testing.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly in respect of stock lending, certain reinsurance arrangements and to provide security against the maturity proceeds of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed, and performs an impairment valuation when impairment indicators exist and the asset is not fully secured (and is not carried at fair value). See note 34.3.1 for further information on collateral arrangements.

40.3.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market influences. Market risk comprises interest rate risk, currency risk and other price risk (comprising equity risk, property risk, inflation risk and alternative asset class risk).

The Group is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including shareholder reserves yet to be distributed, surplus assets within the with-profit funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges from the invested assets of the business.

The Group manages the levels of market risk that it accepts through an approach to investment management that determines:

- the constituents of market risk for the Group;
- the basis used to fair value financial assets and liabilities;
- the asset allocation and portfolio limit structure;
- diversification from and within benchmarks by type of instrument and geographical area;
- the net exposure limits by each counterparty or group of counterparties, geographical and industry segments;
- control over hedging activities;
- reporting of market risk exposures and activities; and
- monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment.

All operations comply with regulatory requirements relating to the taking of market risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate relative to the respective liability due to the impact of changes in market interest rates on the value of interest-bearing assets and on the value of future guarantees provided under certain contracts of insurance.

Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the non-participating funds. For participating business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. The with-profit funds of the Group provide capital to allow such mismatching to be effected. In practice, the life companies of the Group maintain an appropriate mix of fixed and variable rate instruments according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

The sensitivity analysis for interest rate risk indicates how changes in the fair value or future cash flows of a financial instrument arising from changes in market interest rates at the reporting date result in a change in profit after tax and in equity. It takes into account the effect of such changes in market interest rates on all assets and liabilities that contribute to the Group's reported profit after tax and in equity (but excludes the impact on the Group's pension schemes).

With-profit business and non-participating business within the with-profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest securities and derivatives. For with-profit business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits dependent on the existence of policyholder guarantees. The contribution of these funds to the Group result is determined primarily by either the shareholders' share of the declared annual bonus or by the shareholders' interest in any change in value in the capital advanced to the Group's with-profit funds.

In the non-participating funds, policy liabilities' sensitivity to interest rates are matched primarily with fixed and variable rate income securities, with the result that sensitivity to changes in interest rates is very low. For unit-linked funds this risk is borne by the policyholders and the risk to the Group is limited to the extent of the management fees generated by the Group.

An increase of 1% in interest rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year, and in equity, of £24 million (2013: an increase of £105 million).

A decrease of 1% in interest rates, with all other variables held constant, would result in a decrease in profit after tax in respect of a full financial year, and in equity, of £52 million (2013: a decrease of £142 million).

Equity, property and inflation risk

The Group has exposure to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities and property investments which is carried in the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's holdings are diversified across industries and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with-profit or unit-linked funds. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk, whilst the Group also has exposure to the value of guarantees provided to with-profit policyholders. In addition some equity investments are held in respect of shareholders' funds. The Group as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and treating customers fairly. This is largely achieved through asset class diversification and within the Group's ALM framework through the holding of derivatives or physical positions in relevant assets where appropriate.

The sensitivity analysis for equity and property price risk illustrates how a change in the fair value of equities and properties affects the Group result. It takes into account the effect of such changes in equity and property prices on all assets and liabilities that contribute to the Group's reported profit after tax and in equity (but excludes the impact on the Group's pension schemes).

A 10% decrease in equity prices, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year, and in equity, of £36 million (2013: an increase of £36 million).

A 10% increase in equity prices, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year, and in equity, of £36 million (2013: a decrease of £35 million).

A 10% decrease in property prices, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year, and in equity, of £27 million (2013: a decrease of £23 million).

A 10% increase in property prices, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year, and in equity, of £28 million (2013: an increase of £23 million).

The Group is exposed to inflation risk through certain contracts, such as annuities, which may provide for future benefits to be paid taking account of changes in the level of experienced and implied inflation, and also through the Group's cost base. The Group seeks to manage inflation risk within the ALM framework through the holding of derivatives, such as inflation swaps, or physical positions in relevant assets, such as index linked gilts, where appropriate.

Currency risk

The Group's principal transactions are carried out in sterling and therefore its exchange risk is limited principally to historic business that was written in the Republic of Ireland, where the assets are generally held in the same currency denomination as their liabilities, therefore, any foreign currency mismatch is largely mitigated. Consequently, the foreign currency risk relating to this business mainly arises when the assets and liabilities are translated into sterling.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

Certain Phoenix Life with-profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the Investment committees of the Boards of each life company. Fluctuations in exchange rates from certain holdings in overseas assets are hedged against currency risks.

Sensitivity of profit after tax and equity to fluctuations in currency exchange rates is not considered significant at 31 December 2014, since unhedged exposure to foreign currency was relatively low (2013: not considered significant).

40.3.3 Financial soundness risk

Financial soundness risk is a broad risk category encompassing capital management risk, liquidity and funding risk, and tax risk.

Capital management risk is defined as the failure of the Group, or one of its separately regulated subsidiaries, to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The PLHL Group has exposure to capital management risk through the requirements of the IGD and ICA, as implemented by the PRA, to calculate regulatory capital adequacy at a Group level. The Group's UK life subsidiaries have exposure to capital management risk through the regulatory capital requirements mandated by the PRA. The Group's approach to managing capital management risk is described in detail in note 39.

Liquidity and funding risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of its subsidiaries. The Group's subsidiaries have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements.

Tax risk is defined as the risk of financial or reputational loss arising from a lack of liquidity, funding or capital due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation. The Group has exposure to tax risk through the production of its Interim Report and Annual Report and Accounts and the provisions for taxation therein. Tax risk is managed by maintaining an appropriately-staffed tax team who have the qualifications and experience to make judgements on tax issues, augmented by advice from external specialists where required. The Group has a formal tax risk policy, which sets out its risk appetite in relation to specific aspects of tax risk, and which details the controls the Group has in place to manage those risks. These controls are subject to a regular review process. The Group's subsidiaries have exposure to tax risk through the annual statutory and regulatory reporting and through the processing of policyholder tax requirements.

The Board of Phoenix Group Holdings has defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

– liquidity risk is managed in a manner consistent with the subsidiary company Boards' strategic objectives, risk appetite and Principles and Practices of Financial Management ('PPFM');
– cash flows are appropriately managed and the reputation of the Group is safeguarded; and
– appropriate information on liquidity risk is available to those making decisions.

The Group's policy is to maintain sufficient liquid assets of suitable credit quality at all times including, where appropriate, by having access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term allowing management to respond appropriately to changes in circumstances.

The vast majority of the Group's derivative contracts are traded OTC and have a two day collateral settlement period. The Group's derivative contracts are monitored daily, via an end-of-day valuation process, to assess the need for additional funds to cover margin or collateral calls.

Some of the Group's commercial property investments are held through collective investment schemes. The collective investment schemes have the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the collective investment schemes have continued to process both investments and realisations in a normal manner and have not imposed any restrictions or delays.

Some of the Group's cash and cash equivalents are held through collective investment schemes. The collective investment schemes have the power, in an extreme stress, to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the collective investment schemes have continued to process both investments and realisations in a normal manner and have not imposed any restrictions or delays.

The following table provides a maturity analysis showing the remaining contractual maturities of the Group's undiscounted financial liabilities and associated interest. Liabilities under insurance contract contractual maturities are included based on the estimated timing of the amounts recognised in the statement of consolidated financial position in accordance with the requirements of IFRS 4:

2014

	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	3,293	11,037	27,801	799	42,930
Investment contracts	8,451	–	–	–	8,451
Borrowings[1]	153	992	563	184	1,892
Deposits received from reinsurers[1]	33	112	375	–	520
Derivatives[1]	70	68	3,509	–	3,647
Net asset value attributable to unitholders	4,659	–	–	–	4,659
Obligations for repayment of collateral received	954	–	–	–	954
Reinsurance payables	9	–	–	–	9
Payables related to direct insurance contracts	358	–	–	–	358
Accruals and deferred income	130	–	–	–	130
Other payables	360	–	–	–	360

2013 Restated

	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	3,603	10,774	25,899	2,453	42,729
Investment contracts	8,578	–	–	–	8,578
Borrowings[1]	176	1,925	487	186	2,774
Deposits received from reinsurers[1]	35	119	401	–	555
Derivatives[1]	927	70	2,583	3	3,583
Net asset value attributable to unitholders	5,744	–	–	–	5,744
Obligations for repayment of collateral received	6,981	67	236	–	7,284
Reinsurance payables	12	–	–	–	12
Payables related to direct insurance contracts	395	–	–	–	395
Accruals and deferred income	139	–	–	–	139
Other payables	307	–	–	–	307

1 These financial liabilities are disclosed at their undiscounted value and therefore differ to the statement of consolidated financial position which discloses the discounted value.

Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Group does not expect all these amounts to be paid out within one year of the reporting date.

A significant proportion of the Group's financial assets are held in gilts, cash, supranationals and investment grade securities which the Group considers sufficient to meet the liabilities as they fall due. The vast majority of these investments are readily realisable immediately since most of them are quoted in an active market.

40.4 UNIT-LINKED CONTRACTS

For unit-linked contracts the Group matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Group on these contracts.

In extreme circumstances, the Group could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Group considers its risk to be low since there are steps that can be taken first within the funds themselves both to ensure the fair treatment of all investors in those funds and to protect the Group's own risk exposure.

40.5 INSURANCE RISK

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Phoenix Life segment contracts include the following sources of insurance risk:

MORTALITY	higher than expected number of death claims on assurance products and occurrence of one or more large claims;
LONGEVITY	faster than expected improvements in life expectancy on immediate and deferred annuity products;
MORBIDITY	higher than expected number of serious illness claims or more sickness claims which last longer on income protection policies;
EXPENSES	policies cost more to administer than expected;
LAPSES	the numbers of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and
OPTIONS	unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

Objectives and policies for mitigating insurance risk

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The profitability of the run-off of the closed long-term insurance businesses within the Group depends, to a significant extent, on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Directors of each life company to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

Sensitivities

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, currency rates and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation, such as mortality and lapse rates. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. This could lead to changes in assumed asset mix or future bonus rates. The most significant non-economic sensitivities arise from mortality, longevity and lapse risk.

A decrease of 5% in assurance mortality, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £14 million (2013: £18 million).

An increase of 5% in assurance mortality, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £14 million (2013: £18 million).

A decrease of 5% in annuitant longevity, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £135 million (2013: £117 million).

An increase of 5% in annuitant longevity, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £135 million (2013: £116 million).

A decrease of 25% in lapse rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £53 million (2013: £50 million).

An increase of 25% in lapse rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £46 million (2013: £44 million).

40.5.1 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 on a realistic basis, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability. This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

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 year a number of changes were made to assumptions to reflect changes in expected experience or to harmonise the approach across the enlarged Group. The impact of material changes during the year was as follows:

	Decrease in insurance liabilities 2014 £m	(Decrease)/increase in insurance liabilities 2013 £m
Change in longevity assumptions	(14)	(6)
Change in persistency assumptions	(13)	6
Change in expenses assumptions	—	(7)

Valuation interest rate

For realistic basis companies the liabilities are determined stochastically using an appropriate number of risk neutral scenarios produced by an economic scenario generator calibrated to market conditions and gilt yields as at the valuation date.

For funds not subject to realistic reporting, the method used to determine valuation interest rates generally follows the regulations set out in the Prudential Sourcebook for Insurers.

Assets are firstly hypothecated to classes of business being valued. The valuation interest rates for each block of business are based on the expected returns of the hypothecated assets. The yield is then adjusted to make allowance for credit risk, liquidity risk, reinvestment risk and investment management expenses.

Valuation interest rates (after tax for life policies) are typically in the following ranges:

	2014 %	2013 %
Life policies	2.06 – 2.72	2.38 – 2.77
Pension policies	2.45 – 3.31	2.91 – 3.67

Expense inflation

Expenses are assumed to increase at the rate of increase in the Retail Price Index ('RPI') plus fixed margins in accordance with the various management service agreements ('MSAs') the Group has in place with outsource partners. For with-profit business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations may then be added to the rate of expense inflation.

Mortality and longevity rates

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

Lapse and surrender rates (persistency)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the relevant company. Surrender or voluntary premium discontinuances are only assumed for realistic basis companies. Withdrawal rates used in the valuation of with-profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rate

For realistic basis companies, the regular bonus rates assumed in each scenario are determined in accordance with each company's PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

Policyholder options and guarantees

Some of the Group's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most with-profit contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with-profit bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with-profit contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pensions contracts include guaranteed annuity options (see deferred annuities in note 40.5.2 for details). The total amount provided in the with-profit and non-profit funds in respect of the future costs of guaranteed annuity options are £1,809 million (2013: £1,575 million) and £6 million (2013: £29 million) respectively.

In common with other life companies in the UK which have written pension transfer and opt-out business, the Group has set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases and using a certainty equivalent approach, which give a result very similar to a market consistent valuation, are included in liabilities arising under insurance contracts. The total amount provided in the with-profit funds and non-profit funds in respect of the review and possible redress relating to pension policies, including associated costs, are £284 million (2013: £254 million) and £15 million (2013: £15 million) respectively.

With-profit deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

40.5.2 Managing product risk

The following sections give an assessment of the risks associated with the Group's main life assurance products, as shown below, and the ways in which the Group manages those risks.

2014

	Gross		Reinsurance	
	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	9,298	157	595	–
Deferred annuities – without guarantees	1,717	–	–	–
Immediate annuities	1,158	–	589	–
Unitised with-profit	1,089	9,106	39	–
Total pensions	13,262	9,263	1,223	–
Life:				
Immediate annuities	63	–	5	–
Unitised with-profit	594	688	22	–
Life with-profit	4,704	–	10	1
Total life	5,361	688	37	1
Other	2,022	–	181	–
Non-profit funds:				
Deferred annuities – with guarantees	15	–	–	–
Deferred annuities – without guarantees	647	–	–	–
Immediate annuities	8,107	–	1,117	–
Protection	497	–	114	–
Unit-linked	1,650	1,167	54	–
Other	246	5	45	–
	31,807	11,123	2,771	1

The table above excludes insurance contract liabilities and related reinsurer's share of insurance contract liabilities classified as held for sale at 31 December 2014.

2013

	Gross		Reinsurance	
	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	8,753	158	584	–
Deferred annuities – without guarantees	1,698	–	–	–
Immediate annuities	2,886	–	714	–
Unitised with-profit	1,086	8,682	4	–
Total pensions	14,423	8,840	1,302	–
Life:				
Immediate annuities	62	–	5	–
Unitised with-profit	648	694	2	–
Life with-profit	4,448	–	12	1
Total life	5,158	694	19	1
Other	2,084	7	144	–
Non-profit funds:				
Deferred annuities – with guarantees	51	–	–	–
Deferred annuities – without guarantees	621	5	–	–
Immediate annuities	7,051	–	1,102	–
Protection	589	–	225	–
Unit-linked	1,676	1,223	11	–
Other	307	–	47	–
	31,960	10,769	2,850	1

With-profit fund (unitised and traditional)

The Group operates a number of with-profit funds in the UK in which the with-profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-participating business is also written in some of the with-profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates ('GAR').

The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and equities and/or property and other asset classes in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profit funds is set out in the PPFM for each with-profit fund and is overseen by With-Profit committees. Advice is also taken from the with-profit actuary of each with-profit fund. Compliance with the PPFM is reviewed annually and reported to the PRA, FCA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and £nil for others.

Unitised and traditional with-profit policies are exposed to equivalent risks, the main difference being that unitised with-profit policies purchase notional units in a with-profit fund whereas traditional with-profit policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profit fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in, i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ('GCO') policies.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The Group seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

Immediate annuities

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business.

The pricing assumption for mortality risk is based on both historic internal information and externally-generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

Protection

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

40.6 OTHER RISKS

40.6.1 Customer risk

Customer risk is the risk of reductions in earnings and/or value, through inappropriate or poor customer treatment (including poor advice).

40.6.2 Operational risk

Operational risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events.

41. OPERATING LEASES

This note gives details of the Group's commitments under operating leases. The accounting policy adopted in the preparation of this note is detailed in note 1(cc).

Operating lease rentals charged within administrative expenses amounted to £10 million (2013: £14 million).

The Group has commitments under non-cancellable operating leases as set out below:

	2014 £m	2013 £m
Not later than 1 year	10	14
Later than 1 year and not later than 5 years	33	45
Later than 5 years	7	15

The principal operating lease commitments for 2014 concern office space located at St Vincent Street, Glasgow and Juxon House, London (2013: Bothwell Street, Glasgow; St Vincent Street, Glasgow; Juxon House, London and Cheapside, London).

42. COMMITMENTS

This note analyses the Group's other commitments.

	2014 £m	2013 £m
To subscribe to private equity funds and other unlisted assets	334	371
To purchase, construct or develop investment property	28	33
For repairs, maintenance or enhancements of investment property	2	3
To acquire property, plant and equipment	–	5

43. RELATED PARTY TRANSACTIONS

This note gives details of the transactions between Group companies and related parties which comprise our pension schemes and key management personnel.

TRANSACTIONS WITH PENSION SCHEMES

During the year, the Group entered into the following transactions with its pension schemes:

	Transactions 2014 £m	Balances outstanding 2014 £m	Transactions 2013 £m	Balances outstanding 2013 £m
Pearl Group Staff Pension Scheme				
Payment of administrative expenses	(4)	–	(4)	–
PGL Pension Scheme				
Investment management fees	1	–	3	1

The Pearl Scheme has invested in collective investment schemes that are controlled by the Group. At 31 December 2014 the Pearl Scheme held nil units (2013: 59,138,904 units) in the Castle Hill Enhanced Floating Rate Opportunities Limited Fund. The value of these investments at 31 December 2014 was £nil million (2013: £97 million).

Information on other transactions with the pension schemes is included in note 30.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The total compensation of key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the Executive and Non-Executive Directors, are as follows:

	2014 £m	2013 £m
Salary and other short-term benefits	4	4
Equity compensation plans	2	2

Details of the shareholdings and emoluments of individual Directors are provided in the Directors' remuneration report on pages 60 to 82.

44. CONTINGENT LIABILITIES

This note considers whether there is any uncertainty around the timing and amount of certain of the Group's liabilities that would result in their disclosure as a contingent liability. The accounting policy adopted in the preparation of this note is detailed in note 1(u).

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

45. GROUP ENTITIES

As at 31 December 2014, the principal subsidiary undertakings of the Group are set out in the table below. All subsidiaries are 100% owned unless otherwise indicated.

	Country of incorporation and principal place of operation
Insurance companies	
National Provident Life Limited (life assurance company)	UK
Phoenix Life Assurance Limited (life assurance company)	UK
Phoenix Life Limited (life assurance company)	UK
Scottish Mutual International Limited (life assurance company)	ROI
Non-insurance companies	
Impala Holdings Limited (holding company)	UK
Mutual Securitisation plc (finance company)	ROI
NP Life Holdings Limited (holding company)	UK
Opal Reassurance Limited (reassurance company)[1]	Bermuda
PGH Capital Limited[1]	ROI
PGH (LCA) Limited (finance company)[1]	UK

PGH (LCB) Limited (finance company)[1]	UK
PGH (LC1) Limited (finance company)	UK
PGH (LC2) Limited (finance company)	UK
PGH (MC1) Limited (finance company)	UK
PGH (MC2) Limited (finance company)	UK
PGH (TC1) Limited (holding company)[1]	UK
PGH (TC2) Limited (holding company)[1]	UK
Pearl Group Holdings (No. 1) Limited (finance company)	UK
Pearl Group Holdings (No. 2) Limited (holding company)	UK
Pearl Life Holdings Limited (holding company)	UK
Pearl Group Services Limited (management services company)	UK
Pearl Group Management Services Limited (management services company)	UK
Phoenix Life Holdings Limited (holding company)	UK
UK Commercial Property Trust Limited (property fund)[2]	Guernsey

1 These subsidiary undertakings are directly owned by Phoenix Group Holdings.

2 The Group holds 53.2% of the ordinary shares.

The information disclosed in the table is only in respect of those undertakings which materially affect the figures shown in the Group's consolidated financial statements. These subsidiaries are wholly-owned unless otherwise indicated. There are a number of other subsidiaries and associated undertakings whose business does not materially affect the Group's profits or the amount of its assets and particulars of these have been omitted in view of their excessive length. The information excludes collective investment schemes which have been consolidated within the Group financial statements.

SIGNIFICANT RESTRICTIONS

The ability of subsidiary undertakings to transfer funds to the Group in the form of cash dividends or to repay loans and advances is subject to the Group's liquidity policy, local laws, regulations and solvency requirements.

Each UK Life company and the Group must retain sufficient capital at all times to meet the regulatory capital requirements mandated by or otherwise agreed with the PRA. Further information on the capital requirements applicable to Group entities are set out in the Group Capital Statement in note 39. Under UK company law, dividends can only be paid if a UK company has distributable reserves sufficient to cover the dividend.

In addition, contractual requirements may place restrictions on the transfer of funds as follows:

– In the first half of 2014 there was a restriction on the ability of certain subsidiaries undertakings to distribute funds to Phoenix Group Holdings as a result of restrictions imposed by the Group's two credit agreements, namely the Pearl Facility and the Impala Facility. These facilities were replaced with a single debt facility in July 2014 thereby removing these restrictions. Details of restrictions on the payment of dividends imposed by the new facility are provided in note 23.
– The Pearl Pension Scheme funding agreement includes certain covenants which restrict the transfer of funds within the Group. Details are provided in note 30.
– As disclosed in note 20, deferral of the coupon payable on the Notes may restrict the payment of dividends by certain Group companies.

46. EVENTS AFTER THE REPORTING PERIOD

This note highlights significant events that have occurred between the end of the reporting period and the date when the financial statements are authorised for issue in accordance with accounting policy 1(ff).

On 17 March 2015, the Board recommended a final dividend of 26.7p per share (2013: 26.7p per share) for the year ended 31 December 2014. Payment of the final dividend is subject to shareholder approval at the AGM. The cost of this dividend has not been recognised as a liability in the financial statements for 2014 and will be charged to the statement of changes in equity in 2015.

In January 2015, the Group exchanged 99% of the Notes for £428 million of new subordinated notes issued by PGH Capital Limited and maturing in 2025. The terms of the new notes meet the requirement of Tier 2 capital under Solvency II and have a coupon of 6.625%. Upon exchange, £32 million of the new notes were held by Group companies.

H DAVIES
C BANNISTER
J MCCONVILLE
A BARBOUR
R P AZRIA
I CORMACK
T CROSS BROWN
I HUDSON
D WOODS
K SORENSON
St Helier, Jersey
17 March 2015

PARENT COMPANY ACCOUNTS

PARENT COMPANY ACCOUNTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £m	2013 £m
Net investment income	D	147	105
Net income		147	105
Administrative expenses	E	(22)	(13)
Total operating expenses		(22)	(13)
Total comprehensive income for the year attributable to owners		125	92

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.

There are no other comprehensive income items for 2014 and 2013.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	2014 £m	2013 £m
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	16	–	–
Share premium		976	1,095
Foreign currency translation reserve		89	89
Retained earnings		389	257
Total equity		1,454	1,441
Liabilities			
Financial liabilities			
Borrowings	F	3	3
Derivatives	G	–	5
Other amounts due to Group entities	Q	146	118
Accruals and deferred income	H	–	5
Total equity and liabilities		1,603	1,572
ASSETS			
Investments in Group entities	I	1,317	1,308
Financial assets			
Collective investment schemes	J	5	6
Loans and receivables	K	270	244
Other amounts due from Group entities	Q	8	5
Cash and cash equivalents	L	3	9
Total assets		1,603	1,572

The notes identified alphabetically on pages 194 to 199 are an integral part of these Company financial statements. Where items also appear in the consolidated financial statements, reference is made to the notes (identified numerically) on pages 104 to 189.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £m	2013 £m
Cash flows from operating activities			

Cash generated by operations	M	15	75
Net cash flows from operating activities		15	75
Cash flows from investing activities			
Dividends received from Group entities		85	50
Loan advance to Group entities		(6)	(11)
Repayment of loan from Group entities		1	29
Interest received from Group entities		18	19
Capital contributions to Group entities		–	(282)
Net cash flows from investing activities		98	(195)
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		1	233
Ordinary share dividends paid		(120)	(120)
Net cash flows from financing activities		(119)	113
Net decrease in cash and cash equivalents		(6)	(7)
Cash and cash equivalents at the beginning of the year		9	16
Cash and cash equivalents at the end of the year	L	3	9

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital (note 16) £m	Share premium £m	Other reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
At 1 January 2014	–	1,095	–	89	257	1,441
Total comprehensive income for the year attributable to owners	–	–	–	–	125	125
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	1
Dividends paid on ordinary shares (note 14)	–	(120)	–	–	–	(120)
Credit to equity for equity-settled share-based payments (note O)	–	–	–	–	7	7
At 31 December 2014	–	976	–	89	389	1,454

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital (note 16) £m	Share premium £m	Other reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
At 1 January 2013	–	982	5	89	154	1,230
Total comprehensive income for the year attributable to owners	–	–	–	–	92	92
Issue of ordinary share capital, net of associated commissions and expenses	–	233	–	–	–	233
Dividends paid on ordinary shares (note 14)	–	(120)	–	–	–	(120)
Credit to equity for equity-settled share-based payments (note O)	–	–	–	–	6	6
Expired contingent rights	–	–	(5)	–	5	–
At 31 December 2013	–	1,095	–	89	257	1,441

Phoenix Group Holdings is subject to Cayman Islands Companies Law. Under Cayman Islands Companies Law distributions can be made out of profits or share premium subject, in each, to a solvency test. The solvency test is broadly consistent with the Group's going concern assessment criteria.

The notes identified alphabetically on pages 194 to 199 are an integral part of these Company financial statements. Where items also appear in the consolidated financial statements, reference is made to the notes (identified numerically) on pages 104 to 189.

A. ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

The financial statements have been prepared on an historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'). The basis of preparation for the Company financial statements has been amended from IFRSs adopted for use in the European Union to IFRSs issued by the IASB, effective from 1 January 2014. There has been no impact on the Company financial statements as a result of this change.

The financial statements are presented in sterling (£) rounded to the nearest million unless otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an IFRS or interpretation, as specifically disclosed in the accounting policies of the Company.

(b) ACCOUNTING POLICIES

The accounting policies in the separate financial statements are the same as those presented in notes 1(b) to 1(ee) to the consolidated financial statements on pages 105 to 113, except for the policy noted below. There has been no impact on the Company financial statements as a result of the change in accounting policies detailed in note 3 of the consolidated financial statements.

(i) Investments in Group entities

Investments in Group entities are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment is impaired. The Company first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. If objective evidence of impairment exists, the Company calculates the amount of impairment as the difference between the recoverable amount of the Group entity and its carrying value and recognises the amount as an expense in the income statement.

The recoverable amount is determined based on the cash flow projections of the underlying entities.

The assessment of whether an investment in a Group entity is impaired is considered to be a critical accounting judgement for the Company.

B. FINANCIAL INFORMATION

In preparing the financial statements the Company has adopted the standards, interpretations and amendments effective 1 January 2014 which have been issued by the IASB as detailed in note 2 of the consolidated financial statements, none of which have had a significant impact on the Company's financial statements. Details of standards, interpretations and amendments to be adopted in future periods are also detailed in note 2.

C. SEGMENTAL ANALYSIS

The Company has one reportable segment, comprising its investment in and loans to/from Group entities. Its revenue principally comprises the dividend and interest income derived from these investments and loans. Information relating to this segment is included in the Company's primary financial statements on pages 191 to 193.

Predominantly, all revenues from external customers is sourced in the UK.

Predominantly, all assets are located in the UK.

D. NET INVESTMENT INCOME

	2014 £m	2013 £m
Investment income		
Dividend income from other Group entities	94	58
Interest income from other Group entities	48	49
	142	107
Fair value gains/(losses)		
Derivatives	5	(2)
Net investment income	147	105

E. ADMINISTRATIVE EXPENSES

	2014 £m	2013 £m
Employee costs[1]	1	2
Professional fees	7	7
Office costs	1	1
Write down of loans due from other Group entities	10	–
Other	3	3
	22	13

1 In addition to the Non-Executive Directors, one employee was employed by Phoenix Group Holdings during the period (2013: one). Other Group employees are employed by other Group entities.

F. BORROWINGS

	Carrying value		Fair value	
	2014 £m	2013 £m	2014 £m	2013 £m

	Carrying value 2014 £m	Carrying value 2013 £m	Fair value 2014 £m	Fair value 2013 £m
Loan due to Impala Holdings Limited	3	3	3	3
Amount due for settlement after 12 months	3	3		

All borrowings are due to Group entities and are measured at amortised cost using the effective interest method.

On 16 July 2010, the Company was granted a loan from Impala Holdings Limited of £3 million. The loan accrues interest at six-month LIBOR plus 3.25% (2013: 2%) which is capitalised semi-annually on 7 April and 7 October. The loan has a maturity date of 31 December 2016. Interest of £0.1 million (2013: £0.1 million) was accrued during the year. The balance outstanding at 31 December 2014 was £3 million (2013: £3 million).

All borrowings are categorised as Level 3 financial instruments. The fair value of borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

G. DERIVATIVES

	Carrying value		Fair value	
	2014 £m	2013 £m	2014 £m	2013 £m
Warrants over shares in Phoenix Group Holdings	–	5	–	5
Amount due for settlement after 12 months	–	5		

The Company has in issue warrants over its ordinary shares. Details of these warrants are included in note 24.2 to the consolidated financial statements.

Warrants are categorised as Level 2 financial instruments. Details of the factors considered in determination of the fair value are included in note 34.2.1 to the consolidated financial statements.

H. ACCRUALS AND DEFERRED INCOME

	2014 £m	2013 £m
Accruals and deferred income	–	5
Amount due for settlement after 12 months	–	–

I. INVESTMENTS IN GROUP ENTITIES

	2014 £m	2013 £m
Cost		
At 1 January	1,308	1,018
Additions	9	290
At 31 December	1,317	1,308
Impairment		
At 1 January and 31 December	–	–
Carrying amount at 31 December	1,317	1,308

On 25 April 2014, the Company received a £9 million dividend (2013: £8 million) from Opal Reassurance Limited in the form of preference shares in the company.

On 27 February 2013, the Company made capital contributions of £116 million to each of PGH (TC1) Limited and PGH (TC2) Limited.

On 6 December 2013, the Company made capital contributions of £25 million to each of PGH (LCA) Limited and PGH (LCB) Limited.

For a list of principal Group entities, refer to note 45 of the consolidated financial statements. The entities directly held by Phoenix Group Holdings are highlighted separately by an asterisk.

J. COLLECTIVE INVESTMENT SCHEMES

	Carrying value		Fair value	
	2014 £m	2013 £m	2014 £m	2013 £m
Investment in collective investment schemes	5	6	5	6
Amount due for settlement after 12 months	–	–		

All investments are categorised as Level 1 financial instruments. Details of the factors considered in determination of the fair value are included in note 34.2.1 to the consolidated financial statements.

K. LOANS AND RECEIVABLES

	Carrying value		Fair value	
	2014 £m	2013 £m	2014 £m	2013 £m
Loans due from PGH (LCA) Limited and PGH (LCB) Limited	164	148	257	246
Loans due from PGH (MC1) Limited and PGH (MC2) Limited	99	84	194	186
Loans due from other Group Entities	7	12	7	1
	270	244	458	433

Amount due for settlement after 12 months	270	244

All loans and receivables balances are due from Group entities and are measured at amortised cost using the effective interest method. The fair value of these loans and receivables are also disclosed.

On 22 March 2010, the Company subscribed for £325 million of Eurobonds which were issued equally by PGH (LCA) Limited and PGH (LCB) Limited. On 23 March 2010, the Eurobonds were listed on the Channel Islands Stock Exchange. Interest accrues on these Eurobonds at a rate of LIBOR plus a margin of 2.5% and the final maturity date to 30 June 2025. The Eurobonds were initially recognised at fair value and are accreted to par over the period to 2025. At 31 December, £160 million was due (2013: £144 million).

On 12 December 2011, the Company, PGH (LCA) Limited and PGH (LCB) Limited, became party to a joint £77 million loan agreement to formalise an inter-company balance which had arisen in 2009 relating to fees payable to a syndicate of external banks. The loan accrues interest at a rate of LIBOR plus a margin of 1.25% and matures on 30 June 2016. Interest of £0.1 million was capitalised during the year (2013: £0.2 million) and £nil was repaid (2013: £29 million). At 31 December 2014, £4 million was due (2013: £4 million).

On 22 March 2010, the Company subscribed for £250 million of Eurobonds which were issued equally by PGH (MC1) Limited and PGH (MC2) Limited. On 23 March 2010, the Eurobonds were listed on the Channel Islands Stock Exchange. Interest accrues on these Eurobonds at a rate of LIBOR plus a margin of 2.5% and the final maturity date to 30 June 2025. The Eurobonds were initially recognised at fair value and are accreted to par over the period to 2025. At 31 December, £99 million was due (2013: £84 million).

On 22 April 2010, Pearl Group Holdings (No.1) Limited issued a balancing instrument under which notes with a principal of £75 million were issued to PGH. The notes have no fixed maturity date and are included in the Company's financial statements at a nil value. PGH paid no consideration for the notes and has waived its right to receive a coupon on the notes.

On 16 July 2010, the Company entered into an interest free facility arrangement with Phoenix Group Holdings' Employee Benefit ('EBT'). In 2014, £6 million was drawn down against this facility (2013: £11 million). The loan is recoverable until the awards held by the EBT vest to the participants, at which point the loan is reviewed for impairment. Any impairments are determined by comparing the carrying value to the estimated recoverable amount of the loan. Following the vesting of awards in 2014, the value of the EBT loan of £10 million has been written off.

No other loans are considered to be past due or impaired.

For the purposes of the additional fair value disclosures for assets recognised at amortised costs, all loans and receivables are categorised as Level 3 financial instruments. The fair value of loans and receivables with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Details of the factors considered in determination of the fair value are included in note 34.2.1 to the consolidated financial statements.

L. CASH AND CASH EQUIVALENTS

	2014 £m	2013 £m
Bank and cash balances	–	1
Short-term deposits (including demand and time deposits)	3	8
	3	9

M. CASH FLOWS FROM OPERATING ACTIVITIES

	2014 £m	2013 £m
Profit for the year before tax	125	92
Adjustments to reconcile profit for the year to cash flows from operating activities		
Interest income from other Group entities	(48)	(49)
Fair value gains/(losses) on derivatives	(5)	2
Dividends received	(94)	(58)
Write down of loans to Group entities	10	–
Share-based payment charge	7	6
Net decrease/(increase) in investment assets	26	(6)
Net (increase)/decrease in working capital	(6)	88
Cash generated by operations	15	75

N. CAPITAL AND RISK MANAGEMENT

The Company's capital comprises share capital and all reserves. At 31 December 2014, total capital was £1,454 million (2013: £1,441 million). The movement in capital in the year comprises the total comprehensive income for the year attributable to owners of £125 million (2013: £92 million), proceeds from the issue of ordinary share capital, net of associated commission and expenses, of £1 million (2013: £233 million), payment of dividends of £120 million (2013: £120 million) and a credit to equity for equity-settled share-based payments of £7 million (2013: £6 million).

There are no externally imposed capital requirements on the Company. The Company's capital is monitored by the Directors and managed on an ongoing basis via a monthly close process to ensure that it remains positive at all times.

Details of the Group risk management policies are outlined in note 40 to the consolidated financial statements.

The primary operation of the Company is to act as the listed company for the Group. The Company's other assets and liabilities mainly consist of receivables and borrowings from and to other Group entities.

The principal risks and uncertainties facing the Company are:

interest rate risk, since the movement in interest rates will impact the value of interest receivable and payable by the Company;

– liquidity risk, exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short–

term cash flow requirements; and

– credit risk, arising from the default of the counterparty to a particular financial asset and is significantly reduced as assets are primarily inter–company receivables from other group entities.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

O. SHARE-BASED PAYMENTS

For detailed information on the long-term incentive plans, Save As You Earn schemes and deferred bonus share schemes refer to note 19 in the consolidated financial statements.

P. **DIRECTORS' REMUNERAT**ION

Details of the remuneration of the Directors of Phoenix Group Holdings is included in the Directors' remuneration report on pages 60 to 82 of the Annual Report and Accounts.

Q. RELATED PARTY TRANSACTIONS

The Company has related party transactions with Group entities and its key management personnel. Details of the total compensation of key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the Executive and Non-Executive Directors, are included in note 43.

During the year ended 31 December 2014, the Company entered into the following transactions with Group entities:

	2014 £m	2013 £m
Dividends received	94	58
Interest received on loans and receivables due from Group entities	48	49
	142	107

Amounts due from related parties at the end of the year:

	2014 £m	2013 £m
Loans due from Group entities	270	244
Other amounts due from Group entities	8	5
	278	249
Amount due for settlement after 12 months	270	244

Amounts due to related parties at the end of the year:

	2014 £m	2013 £m
Loans due to Group entities	3	3
Other amounts due to Group entities	146	118
	149	121
Amount due for settlement after 12 months	3	3

R. AUDITOR'S REMUNERATION

Details of auditor's remuneration, for Phoenix Group Holdings and its subsidiary undertakings, is included in note 11 to the consolidated financial statements.

S. EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting date are included in note 46 to the consolidated financial statements.

H DAVIES
C BANNISTER
J MCCONVILLE
A BARBOUR
R P AZRIA
I CORMACK
T CROSS BROWN
I HUDSON
D WOODS
K SORENSON
St Helier, Jersey
17 March 2015

ASSET DISCLOSURES

ASSET DISCLOSURES

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; the assets held by the non-controlling interest in collective investment schemes and UK Commercial Property Trust Limited ('UKCPT'); and are 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:

2014

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	1,429	728	2,861	1,176	6,194
Debt securities – gilts	1,485	2,348	8,756	661	13,250
Debt securities – bonds	6,379	1,936	7,082	815	16,212
Equity securities	367	67	5,613	7,787	13,834
Property investments	191	67	997	346	1,601
Other investments[4]	402	(22)	806	–	1,186
At 31 December 2014	10,253	5,124	26,115	10,785	52,277
Cash and cash equivalents in Group holding companies					988
Cash and financial assets in other Group companies					116
Financial assets held by the non-controlling interest in the consolidated UKCPT					736
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,652
Adjustments on consolidation					(14)
Total Group consolidated assets					58,755
Comprised of:					
Investment property					1,858
Financial assets					54,022
Cash and cash equivalents					5,067
Derivative liabilities					(2,192)
					58,755

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

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

3 This information is presented on a look through basis to underlying funds where available.

4 Includes repurchase loans of £nil (2013: £1,789 million), policy loans of £12 million (2013: £13 million), other loans of £24 million (2013: £67 million), net derivative assets of £362 million (2013: £211 million) and other investments of £788 million (2013: £807 million).

2013 Restated

Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	1,439	849	6,221	994	9,503
Debt securities – gilts	1,216	2,132	8,442	486	12,276
Debt securities – bonds	5,974	1,889	9,223	1,009	18,095
Equity securities	380	28	6,104	8,260	14,772
Property investments	199	80	876	286	1,441
Other investments	292	(88)	2,204	58	2,466
At 31 December 2013	9,500	4,890	33,070	11,093	58,553
Cash and cash equivalents in Group holding companies					995
Cash and financial assets in other Group companies					224
Financial assets held by the non-controlling interest in UKCPT					584
Financial assets held by the non-controlling interest in consolidated collective investment schemes					5,579
Adjustments on consolidation					9
Total Group consolidated assets					65,944
Comprised of:					
Investment property					1,603
Financial assets					57,208
Cash and cash equivalents					9,294
Derivative liabilities					(2,161)
					65,944

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

2014

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	1,485	2,348	8,756	661	13,250
Other government and supranational[1]	1,196	753	2,432	116	4,497
Corporate – financial institutions	2,185	506	2,192	196	5,079

Corporate – other	2,394	346	1,889	445	5,074
Asset backed securities	604	331	569	58	1,562
At 31 December 2013	7,864	4,284	15,838	1,476	29,462

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

2013

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	1,216	2,132	8,442	486	12,276
Other government and supranational[1]	1,061	678	2,517	290	4,546
Corporate – financial institutions	2,051	513	3,417	216	6,197
Corporate – other	2,285	349	2,238	439	5,311
Asset backed securities	577	349	1,051	64	2,041
At 31 December 2013	7,190	4,021	17,665	1,495	30,371

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

The life companies' debt portfolio was £29.5 billion at 31 December 2014. Shareholders had direct exposure to £12.1 billion of these assets (including supported participating funds), of which 94% were investment grade rated securities. The shareholders' credit risk exposure to the non-supported participating funds is primarily limited to the shareholders' share of future bonuses. Shareholders' credit risk exposure to the unit-linked funds is limited to the level of asset management fee, which is dependent on the underlying assets.

Sovereign and supranational debt represented 48% of the debt portfolio in respect of shareholder exposure, or £5.8 billion, at 31 December 2014. The vast majority of the life companies' exposure to sovereign and supranational debt holdings is to UK gilts.

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

2014

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

2013

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,326	2,207	8,831	671	13,035
Supranationals	507	324	669	37	1,537
USA	3	16	42	11	72
Germany	406	243	1,010	23	1,682
France	4	–	6	1	11
Netherlands	7	–	22	1	30
Portugal	–	–	–	–	–
Italy	–	–	–	3	3
Ireland	–	–	–	–	–
Greece	–	–	–	–	–
Spain	–	4	–	2	6
Other – non-Eurozone	13	7	305	24	349
Other – Eurozone	11	9	74	3	97
At 31 December 2013	2,277	2,810	10,959	776	16,822

At 31 December 2014, the life companies had £5 million (2013: £4 million) shareholder exposure to sovereign debt of the Peripheral Eurozone, defined as Portugal, Italy, Ireland, Greece and Spain.

All of the life companies' debt securities are held at fair value through profit or loss under IAS 39, and therefore already reflect any reduction in value between the date of purchase and the balance sheet date.

The life companies have in place a comprehensive database that consolidates credit exposures across counterparties, geographies and business lines. This database is used for credit monitoring, stress testing and scenario planning. The life companies continue to manage their balance sheets prudently and have taken measures to ensure their market exposures remain within risk appetite.

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

2014

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,181	301	959	95	2,536
USA	397	84	420	14	915
Germany	46	3	44	–	93
France	126	10	115	10	261
Netherlands	218	50	272	31	571
Portugal	–	–	–	–	–
Italy	3	–	13	–	16
Ireland	–	–	–	–	–
Greece	–	–	–	–	–
Spain	2	–	20	–	22
Other – non-Eurozone	177	54	305	45	581
Other – Eurozone	35	4	44	1	84
At 31 December 2014	2,185	506	2,192	196	5,079

2013

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,062	291	1,323	91	2,767
USA	357	69	440	15	881
Germany	120	32	296	25	473
France	80	5	184	19	288
Netherlands	187	57	518	36	798
Portugal	–	–	–	–	–
Italy	29	–	13	–	42
Ireland	1	–	1	–	2
Greece	–	–	–	–	–
Spain	2	–	9	–	11
Other – non-Eurozone	141	45	457	26	669
Other – Eurozone	72	14	176	4	266
At 31 December 2013	2,051	513	3,417	216	6,197

The life companies had £5 million shareholder exposure to financial institution corporate debt of the Peripheral Eurozone at 31 December 2014. This exposure has decreased, from £32 million at 31 December 2013 as a result of one of the funds decreasing its exposure to Italian insurance companies. The £2,691 million (2013: £2,564 million) total shareholder exposure comprised £1,644 million (2013: £1,597 million) senior debt, £215 million (2013: £367 million) Tier 1 debt and £832 million (2013: £600 million) Tier 2 debt.

INDIRECT EXPOSURE

The £2,691 million shareholder exposure to financial institution corporate debt comprised £1,556 million (2013: £1,653 million) bank debt and £1,135 million (2013: £911 million) non-bank debt.

For each of the life companies' significant financial institution counterparties, industry and other data has been used to assess the exposure of the individual counterparties. As part of the Group's risk appetite framework and analysis of shareholder exposure to a potential worsening of the economic situation, this assessment has been used to identify counterparties considered to be most at risk from defaults. The financial impact on these counterparties, and the contagion impact on the rest of the shareholder portfolio, is assessed under various scenarios and assumptions. This analysis is regularly reviewed to reflect the latest economic outlook, economic data and changes to asset portfolios. The results are used to inform the Group's views on whether any management actions are required.

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

2014

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,122	166	1,022	350	2,660
USA	436	71	233	16	756
Germany	191	51	151	21	414
France	227	32	197	23	479
Netherlands	51	2	35	5	93
Portugal	–	–	1	–	1
Italy	42	2	62	2	108
Ireland	–	–	–	–	–
Greece	3	–	–	–	3

Spain	30	–	28	2	60
Other – non-Eurozone	188	21	96	14	319
Other – Eurozone	104	1	64	12	181
At 31 December 2014	2,394	346	1,889	445	5,074

2013

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,169	141	1,156	335	2,801
USA	299	67	240	16	622
Germany	201	46	259	24	530
France	191	73	204	14	482
Netherlands	61	–	40	2	103
Portugal	–	–	–	–	–
Italy	61	1	70	7	139
Ireland	10	–	1	–	11
Greece	2	–	–	–	2
Spain	26	–	30	3	59
Other – non-Eurozone	168	18	145	20	351
Other – Eurozone	97	3	93	18	211
At 31 December 2013	2,285	349	2,238	439	5,311

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

2014

Analysis of ABS holdings by country	Shareholder and non-profit funds **£m**	Participating supported **£m**	Participating non-supported **£m**	Unit-linked **£m**	Total **£m**
UK	516	323	487	56	1,382
USA	43	–	5	–	48
Germany	–	2	23	–	25
France	–	2	–	–	2
Netherlands	19	–	28	2	49
Portugal	–	–	–	–	–
Italy	–	–	5	–	5
Ireland	–	–	8	–	8
Greece	–	–	–	–	–
Spain	–	–	2	–	2
Other – non-Eurozone	26	4	11	–	41
Other – Eurozone	–	–	–	–	–
At 31 December 2014	604	331	569	58	1,562

2013

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	478	329	818	59	1,684
USA	41	–	11	–	52
Germany	2	5	104	–	111
France	2	2	8	–	12
Netherlands	22	2	51	5	80
Portugal	–	–	–	–	–
Italy	–	1	16	–	17
Ireland	14	2	22	–	38
Greece	–	–	–	–	–
Spain	–	–	4	–	4
Other – non-Eurozone	17	2	17	–	36
Other – Eurozone	1	6	–	–	7
At 31 December 2013	577	349	1,051	64	2,041

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

2014

Credit rating analysis of debt portfolio	Shareholder and non-profit funds **£m**	Participating supported **£m**	Participating non-supported **£m**	Unit-linked **£m**	Total **£m**
AAA	1,168	699	1,769	62	3,698
AA	2,257	2,981	10,130	775	16,143
A	1,549	438	1,392	137	3,516

BBB	2,154	140	2,043	207	4,544
BB	284	3	129	17	433
B and below	284	–	191	2	477
Non-rated	168	23	184	276	651
At 31 December 2014	7,864	4,284	15,838	1,476	29,462

97% of rated securities were investment grade at 31 December 2014 (2013: 97%). The percentage of rated securities that were investment grade in relation to the shareholder and policyholders' funds were 95% and 98% respectively (2013: 95% and 98% respectively).

2013

Credit rating analysis of debt portfolio	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
AAA	1,096	674	2,183	89	4,042
AA	1,783	2,640	10,121	553	15,097
A	1,498	502	2,155	163	4,318
BBB	1,883	174	2,469	212	4,738
BB	218	7	249	20	494
B and below	353	1	31	5	390
Non-rated	359	23	457	453	1,292
At 31 December 2013	7,190	4,021	17,665	1,495	30,371

MCEV SUPPLEMENTARY INFORMATION

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

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

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

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

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

Specifically, the Directors have:

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

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER
ST HELIER, JERSEY
17 March 2015

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF PHOENIX GROUP HOLDINGS ON

THE CONSOLIDATED PHOENIX GROUP MCEV

We have audited the Consolidated Phoenix Group MCEV ('Phoenix Group MCEV') supplementary information for the year ended 31 December 2014 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 1 to 7. The Phoenix Group MCEV supplementary information has been prepared by the Directors of Phoenix Group Holdings ('the Group') in accordance with the basis of preparation set out on pages 216 to 218.

DIRECTORS' RESPONSIBILITIES FOR THE PHOENIX GROUP MCEV SUPPLEMENTARY INFORMATION

The Directors are responsible for the preparation of the Phoenix Group MCEV supplementary information in accordance with the basis of preparation set out on pages 216 to 218 and for such internal control as the Directors determine is necessary to enable the preparation of supplementary information that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the Phoenix Group MCEV supplementary information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require us to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Phoenix Group MCEV supplementary information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Phoenix Group MCEV supplementary information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Phoenix Group MCEV supplementary information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation of the Phoenix Group MCEV supplementary information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Directors, as well as evaluating the overall presentation of the Phoenix Group MCEV supplementary information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the Phoenix Group MCEV supplementary information, for the year ended 31 December 2014, has been prepared, in all material respects, in accordance with the basis of preparation set out on pages 216 to 218.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our opinion, we draw attention to pages 216 to 218 of the Phoenix Group MCEV supplementary information, which describe the basis of preparation. The Phoenix Group MCEV supplementary information is prepared by Phoenix Group Holdings in accordance with the basis of preparation set out on pages 216 to 218. As a result, the Phoenix Group MCEV supplementary information may not be suitable for another purpose. This report, including the opinion, has been prepared for and only for the Group's Directors as a body in accordance with our letter of engagement dated 1 August 2014 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER MATTER

We have reported separately on the IFRS consolidated financial statements of Phoenix Group Holdings for the year ended 31 December 2014. The information contained in the Phoenix Group MCEV supplementary information should be read in conjunction with the consolidated financial statements prepared on an IFRS basis.

ERNST & YOUNG LLP
LONDON
17 March 2015

SUMMARISED CONSOLIDATED INCOME STATEMENT – GROUP MCEV BASIS

FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £m	2013 £m
Life MCEV operating earnings	341	401
Management services operating profit	36	32
Ignis operating profit – discontinued operations	17	49
Group costs	(28)	(27)
Group MCEV operating earnings before tax	366	455
Economic variances on life business	54	138
Economic variances on non-life business	(64)	(48)
Other non-operating variances on life business	(94)	(35)

Non-recurring items on non-life business	317	(61)
Finance costs attributable to owners	(90)	(140)
Group MCEV earnings before tax	489	309

Tax on operating earnings	(78)	(105)
Tax on non-operating earnings	–	(42)
Total tax	(78)	(147)
Group MCEV earnings after tax	411	162
Analysed between:		
Group MCEV earnings after tax from continuing operations	429	204
Group MCEV earnings after tax from discontinued operations	(18)	(42)
Group MCEV earnings after tax	411	162

MCEV EARNINGS PER ORDINARY SHARE

FOR THE YEAR ENDED 31 DECEMBER 2014

	2014	2013
Group MCEV operating earnings after tax		
Basic[1]	128.4p	165.5p
Diluted[2]	128.2p	165.3p
Group MCEV earnings after tax		
Basic[1]	183.2p	76.2p
Diluted[2]	182.8p	76.1p

1 Based on 225 million shares (2013: 212 million) as set out in note 15 of the IFRS consolidated financial statements.

2 Based on 225 million shares (2013: 212 million) as set out in note 15 of the IFRS consolidated financial statements.

The earnings on life business are calculated on a post-tax basis and are grossed up at the effective rate of shareholder tax for presentation in the income statement. The tax rate used is the UK corporate tax rate of 21.5% (2013: 23.25%).

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME – GROUP MCEV BASIS

FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £m	2013 £m
Group MCEV earnings for the year after tax	411	162
Other comprehensive income		
Remeasurements and pension scheme contributions on defined benefit pension schemes (net of tax)	(27)	(16)
Total comprehensive income for the year	384	146

RECONCILIATION OF MOVEMENT IN EQUITY – GROUP MCEV BASIS

FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £m	2013 £m
Group MCEV equity at 1 January	2,378	2,122

Total comprehensive income for the year	384	146
Issue of ordinary share capital, net of associated commissions and expenses	1	233
Dividends paid on ordinary shares	(120)	(120)
Dividends paid on shares held by the employee trust and Group entities	1	2
Shares sold by Group entities	4	–
Movement in equity for equity-settled share-based payments	7	6
Shares acquired by the employee trust	(8)	(11)
Total capital and dividend flows – external	(115)	110
Group MCEV equity at 31 December	2,647	2,378

GROUP MCEV ANALYSIS OF EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2014

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

1 Relating to the Ignis division disposed of on 1 July 2014 (see note 1), classified as discontinued operations. The Asset Management MCEV earnings after tax of £12 million includes intragroup fee income after tax of £30 million.

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

3 Comprises capital flows relating to the disposals of Ignis and BA(GI) Limited (see note 1)

FOR THE YEAR ENDED 31 DECEMBER 2013

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management[1] IFRS £m	Other Group companies[2] IFRS £m	Group MCEV £m
Group MCEV at 1 January 2013	3,263	115	86	(1,342)	2,122
Operating MCEV earnings (after tax)	308	25	38	(21)	350
Non-operating MCEV earnings (after tax)	79	(8)	(2)	(257)	(188)
Total MCEV earnings	387	17	36	(278)	162
Other comprehensive income	–	–	–	(16)	(16)
Capital and dividend flows – internal	(591)	2	(14)	603	–
Capital and dividend flows – external	–	–	–	110	110
Closing value at 31 December 2013	3,059	134	108	(923)	2,378

1 Relates to the Ignis division disposed of on 1 July 2014 (see note 1), classified as discontinued operations. The Asset Management MCEV earnings after tax of £36 million includes intragroup income of £70 million.

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

RECONCILIATION OF GROUP IFRS EQUITY TO MCEV NET WORTH

FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £m	2013 £m
Group net assets attributable to owners of the parent as reported under IFRS	2,365	1,909
Goodwill and other intangibles in accordance with IFRS removed (net of tax)	(217)	(391)
Value of in-force business in accordance with IFRS removed (net of tax)	(1,011)	(1,083)
Adjustments to IFRS reserving	(130)	(144)
Tax adjustments	33	33
Revalue listed debt to market value	(68)	5
Fair value adjustments[1]	–	8
Eliminate after tax pension scheme surpluses (including IFRIC 14 adjustments)[2]	(492)	(210)
Other adjustments [3]	(14)	(6)
MCEV net worth attributable to owners of the parent	466	121
MCEV value of in-force business included (net of tax) as set out in note 2	2,181	2,257
Closing Group MCEV	2,647	2,378

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

2 Pension scheme surpluses valued on an IFRS basis are removed. This includes the IFRIC 14 adjustments as described in note 30 to the IFRS consolidated financial statements.

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

NOTES TO THE MCEV FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

OVERVIEW

The supplementary information on pages 212 to 223 has been prepared on a Market Consistent Embedded Value ('MCEV') basis except for the items described further below.

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

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

On 18 March 2014, the Group completed the sale of its entire interest in BA(GI) Limited to National Indemnity Company for cash consideration of £21 million. A gain on disposal of £4 million has been recognised in 'non-recurring items on non-life business'.

On 25 March 2014, the Group and Standard Life Investments (Holdings) Limited ('Standard Life Investments') signed a disposal agreement under which Standard Life Investments agreed to acquire the entire issued share capital of Ignis in return for gross cash consideration of £390 million. The divestment was completed on 1 July 2014 and the results for the business have been included in the MCEV Supplementary Information up to this date. A post completion payment of £6 million calculated in accordance with the sale and purchase agreement, was paid to Standard Life Investments on 24 September 2014. Attributable transaction expenses were £5 million, and a gain on disposal of £288 million has been recognised in 'non-recurring items on non-life business'. £250 million of the disposal proceeds were used to prepay the Impala loan facility.

Ignis has been classified as a discontinued operation and generated a loss after tax for the period of £18 million (31 December 2013: loss of £42 million). This loss after tax excludes intragroup fee income after tax of £30 million in the period (31 December 2013: £78 million).

On 7 July 2014, the Group's new financing subsidiary, PGH Capital Limited, issued a £300 million 7 year senior unsecured bond at an annual coupon rate of 5.75%. The net proceeds from the bond issue of £296 million were used to prepay the Impala loan facility.

On 23 July 2014, PGH Capital Limited entered into a new £900 million 5 year unsecured bank facility which along with a £206 million debt repayment from internal resources was used to refinance the entirety of the Group's existing two bank facilities and PIK notes, replacing the Pearl and Impala loan facilities with a single debt facility. Further details on the terms and conditions of the new facility are included in note 23 to the IFRS financial statements.

On 31 July 2014, the Group entered into a reinsurance agreement, effective 1 January 2014, to transfer approximately £1.7 billion of annuity in-payment liabilities, currently held within the Group's with-profit funds, to Guardian Assurance Limited ('Guardian'). On 11 August 2014, the Group made an associated transfer of £1.7 billion of assets to Guardian as the related reinsurance premium for the transferred annuity liabilities. It is highly probable that the reinsurance agreement will be replaced by a formal scheme under Part VII of the Financial Services and Market Act 2000 to transfer the annuity liabilities to Guardian in the second half of 2015. The adverse impact of the reinsurance transaction of £12 million has been recognised in the MCEV as at 31 December 2014.

The Finance Act 2012 set the rate of corporation tax at 23% from 1 April 2013 and further reductions to 21% from April 2014 and 20% from April 2015 were set by the Finance Act 2013. The impact of these tax rate reductions has been reflected in the Group's MCEV.

COVERED BUSINESS

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

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

MCEV METHODOLOGY

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

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

a) Net worth

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

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

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

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

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

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

The VIF consists of the following components:

Present value of future profits ('PVFP')

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

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

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

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

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

Frictional cost of capital ('COC')

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

Required capital is defined as the minimum regulatory capital requirement, which is the greater of Pillar 1 and Pillar 2 capital requirements, plus the capital required under the Group's capital management policy. This equates to 142% of the Pillar 1 minimum regulatory capital requirement or 124% of the Pillar 2 minimum regulatory capital requirement (2013: 145% Pillar 1, 128% Pillar 2).

Solvency II aims to introduce a new capital regime for insurers. No allowance has been made within the Group's MCEV information for the impact of this developing regime.

Costs of residual non-hedgeable risks ('CNHR')

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

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

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

For with-profits business the CNHR would increase the TVFOGs by £14 million (2013: £25 million).

For other business the cost would be £105 million (2013: £105 million). This equates to an equivalent average cost of capital charge of 0.95% (2013: 1.3%). The level of capital assumed in this calculation is determined based on a 99.5% confidence level over a 1 year time horizon, consistent with the ICA methodology. Allowance is made for diversification benefits between non-hedgeable risks, but not between hedgeable and non-hedgeable risks.

c) Valuation of debt

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

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

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

d) Taxation

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

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

e) New business

The MCEV places a value on the profits expected to be earned on annuities arising from policies vesting with guaranteed annuity terms. The value is calculated based on management's assumptions as to long-term profit margins and projected take-up rates. As at 31 December 2014, the Group MCEV included £163 million in respect of these policies (2013: £191 million). These policies are excluded from the definition of new business on the basis that the annuity being provided is an obligation under an existing policy and the life companies are already reserving for the cost of these guarantees.

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

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

f) Participating business

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

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

g) Pension schemes

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

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

h) Events after the reporting period

On 17 March 2015, the Board recommended a final dividend of 26.7p per share (2013: 26.7p per share) for the year ended 31 December 2014. Payment of the final dividend is subject to shareholder approval at the AGM. The cost of this dividend will be charged to the Reconciliation of Movement in Equity – Group MCEV basis in 2015.

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

2. COMPONENTS OF THE MCEV OF COVERED BUSINESS

	2014 £m	2013 £m
Net worth	675	802
PVFP	2,238	2,301
TVFOG	(38)	(39)
COC	(19)	(5)
Total VIF	2,181	2,257
	2,856	3,059

The net worth of covered business of £675 million at 31 December 2014 (2013: £802 million) consists of £196 million of free surplus in excess of required capital (2013: £529 million).

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

	Year Ended 31 December 2014		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2014	802	2,257	3,059
New business value	7	4	11
Expected existing business contribution (reference rate)[1]	31	79	110

Expected existing business contribution (in excess of reference rate)[2]	(8)	35	27
Transfer from VIF to net worth	179	(179)	–
Experience variances	45	8	53
Assumption changes	20	(35)	(15)
Other operating variances	71	11	82
Life MCEV operating earnings	345	(77)	268
Economic variances	(28)	70	42
Other non-operating variances	(34)	(40)	(74)
Total Life MCEV earnings	283	(47)	236
Divested businesses	(18)	–	(18)
Capital and dividend flows	(392)	(29)	(421)
Life MCEV at 31 December 2014	675	2,181	2,856

1 Expected existing business contribution (reference rate) represents the expected return on the opening MCEV at the long-term risk-free rate at 3.55% (2013: 2.42%).

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.

	Year ended 31 December 2013		
	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2013	886	2,377	3,263
New business value	13	5	18
Expected existing business contribution (reference rate)	27	56	83
Expected existing business contribution (in excess of reference rate)	2	40	42
Transfer from VIF to net worth	188	(188)	–
Experience variances	37	42	79
Assumption changes	–	3	3
Other operating variances	9	74	83
Life MCEV operating earnings	276	32	308
Economic variances	60	46	106
Other non-operating variances	144	(171)	(27)
Total Life MCEV earnings	480	(93)	387
Capital and dividend flows	(564)	(27)	(591)
Life MCEV at 31 December 2013	802	2,257	3,059

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
Year ended 31 December 2014	154	11	7%
Year ended 31 December 2013	286	18	6%

5. MATURITY PROFILE OF BUSINESS

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

	Years					
Present value of future profits (PVFP)	1–5 **£m**	6–10 **£m**	11–15 **£m**	16–20 **£m**	20+ **£m**	Total **£m**
31 December 2014	859	556	387	250	186	2,238
31 December 2013	997	576	344	212	172	2,301

6. ASSUMPTIONS

REFERENCE RATES

(a) Risk-free rates

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

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

	2014		2013	
Term	Gilt yield +10 bps	Swap yield	Gilt yield +10 bps	Swap yield
1 year	0.43%	0.98%	0.51%	0.61%
5 years	1.31%	1.46%	2.08%	2.16%
10 years	1.97%	1.87%	3.32%	3.11%
15 years	2.38%	2.12%	3.79%	3.48%
20 years	2.62%	2.26%	3.92%	3.60%

Had the Group used the swap rate curve as set out in the CFO Forum principles, the MCEV would have been £218 million lower (2013: £160 million lower).

(b) Liquidity premiums

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

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

	2014	2013
Additional yield over risk-free rates	0.46%	0.36%

INFLATION

For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index ('RPI') as at 31 December 2014, was taken from the implied inflation curve at a term appropriate to the liabilities. The rate of increase in UK National Average Earnings inflation is assumed to be RPI plus 100 basis points as at 31 December 2014 (2013: RPI plus 100 basis points).

6. ASSUMPTIONS CONTINUED

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 2014. The scenario generator and calibration are consistent with that used for realistic balance sheet reporting.

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

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

	Option term (years)					
Interest rate volatility	5	10	15	20	25	30
2013 Swap term (years)						
5	23.1%	17.3%	16.5%	16.3%	16.2%	15.9%
10	19.9%	16.3%	15.4%	15.1%	14.9%	14.7%
20	18.1%	15.5%	14.2%	13.5%	13.2%	12.7%
30	17.0%	14.9%	13.4%	12.4%	11.8%	11.2%

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

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

	Term (years)					
Equity implied volatility (ATM)	5	10	15	20	25	30
2014	20.8%	22.2%	23.0%	23.4%	23.7%	23.9%
2013	18.9%	22.1%	22.4%	22.9%	23.3%	23.7%

Best estimate levels of volatility are assumed for directly held property. The model implied volatility for 2014 is 15% (2013: 15%).

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

OPERATING EARNINGS

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

The table below sets outs the asset risk premiums used:

	2014	2013
Equities	3.0%	3.0%
Property	2.0%	2.0%
Gilts	0.0%	0.0%

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

EXPENSES

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

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

VALUATION OF DEBT AND NON-CONTROLLING INTERESTS

The Group's consolidated balance sheet as at 31 December 2014 includes Perpetual Reset Capital Securities with principal outstanding of £425 million (2013: £425 million), Phoenix Life Limited subordinated debt with a face value of £200 million (2013: £200 million) and the PGH Capital Limited senior bond with a face value of £300 million. These listed securities have been included within the MCEV at their market value quoted at the reporting date.

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

	2014		2013	
	Face value £m	Market value £m	Face value £m	Market value £m
Listed debt and non-controlling interests				
Perpetual Reset Capital Securities	394	387	394	350
Phoenix Life Limited subordinated debt	200	212	200	205
PGH Capital Limited senior bond	300	324	–	–

Unlisted debt has been included at face value:

	2014 Face value £m	2013 Face value £m
Unlisted debt		
PGH Capital Limited facility	840	–
Pearl and Impala facilities	–	1,612
Royal London PIK notes and facility	–	121

7. SENSITIVITY TO ASSUMPTIONS

The table below summarises the key sensitivities of the MCEV of covered business at 31 December 2014:

	2014 Life MCEV £m	2013 Life MCEV £m
(1) Base	2,856	3,059
(2) 1% decrease in risk-free rates	59	11
(3) 1% increase in risk-free rates	(68)	7
(4) 10% decrease in equity market values	(46)	(41)
(5) 10% increase in equity market values	46	47
(6) 10% decrease in property market values	(46)	(46)
(7) 10% increase in property market values	45	45
(8) 100 bps increase in credit spreads[1]	(164)	(143)
(9) 100 bps decrease in credit spreads[1]	157	148
(10) 25% increase in equity/property implied volatilities	(9)	(7)
(11) 25% increase in swaption implied volatilities	(9)	6
(12) 25% decrease in lapse rates and paid-up rates	(30)	(25)
(13) 5% decrease in annuitant mortality	(140)	(122)
(14) 5% decrease in non-annuitant mortality	15	28
(15) Required capital equal to the minimum regulatory capital[2]	16	1

1 25 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.

The specialist expertise of our employees is central to maximising value for customers and shareholders.

ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

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

The voting results for our 2014 AGM, including proxy votes and votes withheld, will be available on the Group's website shortly after the meeting.

SHARE PRICE PERFORMANCE

PHOENIX GROUP HOLDINGS SHARE PRICE PERFORMANCE

See page 226 of the Annual Report and Accounts 2014.

SHAREHOLDER PROFILE AS AT 31 DECEMBER 2014

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	647	38.26	318,838	0.14
1,001–5,000	548	32.41	1,217,484	0.54
5,001–10,000	97	5.74	715,771	0.32
10,001–250,000	287	16.97	18,375,553	8.16
250,001–500,000	36	2.13	12,950,102	5.75
500,001 and above	76	4.49	191,498,426	85.08
Total	1,691	100.00	225,076,174	100.00

SHAREHOLDER SERVICES

MANAGING YOUR SHAREHOLDING

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

REGISTRAR DETAILS

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

Shareholder helpline number	+44 (0) 870 707 4040
Fax number	+44 (0) 870 873 5851
Shareholder helpline email address	info@computershare.co.je

DIVIDEND MANDATES

Shareholders may find it convenient to have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility please call Computershare and request a 'Dividend Mandate' form.

SCRIP DIVIDEND ALTERNATIVE

The Company does not currently offer a scrip dividend alternative.

WARNING TO SHAREHOLDERS

Over recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company.

If you receive any unsolicited investment advice:

– Make sure you get the correct name of the person and organisation
– Check that they are properly authorised by the Financial Conduct Authority ('FCA') before getting involved by visiting www.fca.org.uk/firms/systems-reporting/register
– Report the matter to the FCA by calling the FCA Consumer Helpline on 0800 111 6768
– If the calls persist, hang up.

If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme ('FSCS'). The FCA can also be contacted by completing an online form available at www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website available at www.fca.org.uk/consumers.

SHARE PRICE

You can access the current share price of Phoenix Group Holdings on the Group's website together with electronic copies of the Group's financial reports and presentations at www.thephoenixgroup.com/investor-relations.aspx.

ORDINARY SHARES – 2014 FINAL DIVIDEND

Ex-dividend date	26 March 2015

Record date	27 March 2015
Payment date for the recommended final dividend	27 April 2015

GROUP FINANCIAL CALENDAR FOR 2015

Annual General Meeting	23 April 2015
Announcement of first quarter Interim Management Statement	24 April 2015
Announcement of unaudited six months' Interim Results	20 August 2015
Announcement of third quarter Interim Management Statement	22 October 2015

FORWARD-LOOKING STATEMENTS

The 2014 Annual Report and Accounts contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

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

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

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within the 2014 Annual Report and Accounts.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2014 Annual Report and Accounts or any other forward-looking statements it may make or publish.

The 2014 Annual Report and Accounts 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 2014 Annual Report and Accounts is or should be construed as a profit forecast or estimate.

GLOSSARY

ABI	Association of British Insurers – A trade association for the UK's insurance industry
ABS	Asset Backed Securities – A collateralised security whose value and income payments are derived from a specified pool of underlying assets
ACSM	Alternative Coupon Satisfaction Mechanism – The mechanism under the Tier 1 Notes, under which, if Pearl Group Holdings (No. 1) Limited opts to defer a coupon payment, the deferred coupon payment may only be satisfied through the proceeds of the issue of certain forms of securities, which may be made at any time
ALM	Asset Liability Management – Management of mismatches between assets and liabilities within risk appetite
ANNUITY POLICY	A policy that pays out regular benefit amounts, either immediately and for the remainder of a policyholder's lifetime (immediate annuity), or deferred to commence at some future date (deferred annuity)
ASSET MANAGEMENT	The management of assets using a structured approach to guide the act of acquiring and disposing of assets, with the objective of meeting defined investment goals and maximising value for investors, including policyholders
AST	Actuarial Systems Transformation – A project set up to rationalise and streamline the Group's actuarial systems, models and processes into a single actuarial modelling platform that is state of the art, scalable and able to meet our future demands

BLACK-SCHOLES	A mathematical model used to calculate the value of an option
CFO FORUM	A high-level discussion group formed of the Chief Financial Officers of major European insurance companies. Its aim is to influence the development of financial reporting and related regulatory developments for insurance companies on behalf of its members
CLOSED LIFE FUND	A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders
COC	Frictional Cost of Capital – 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
CNHR	Cost of residual non-hedgeable risk – The expected cost of non-hedgeable risks that can have an asymmetric impact on shareholder value to the extent these risks have not already been reflected in the present value of future profits or time value of financial options and guarantees within the MCEV
DPF	Discretionary Participation Feature – A contractual right under an insurance contract to receive, as a supplement to guaranteed benefits, additional benefits whose amount or timing is contractually at the discretion of the issuer
EBT	Employee Benefit Trust – A trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards. The Company's EBT is the Phoenix Group Holdings Employee Benefit Trust
ECONOMIC ASSUMPTIONS	Assumptions related to future interest rates, inflation, market value movements and tax
EEA	European Economic Area – Established on 1 January 1994 and is an agreement between Norway, Iceland, Liechtenstein and the European Union. It allows these countries to participate in the EU's single market without joining the EU
EURONEXT	A pan-European Stock Exchange based in Amsterdam, Holland
EMBEDDED VALUE	The value to equity shareholders of the net assets and expected future profits of a life company
EXPERIENCE VARIANCES	Current period differences between the actual experience incurred and the assumptions used in the calculation of MCEV or IFRS insurance liabilities
FINANCIAL LEVERAGE	Gross shareholder debt (financial leverage basis) as a percentage of the gross MCEV
FINANCIAL REPORTING COUNCIL	The UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment
FREE SURPLUS	The amount of capital held in life companies in excess of that needed to support their 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
FCA	Financial Conduct Authority – The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority ('PRA'), such as asset managers and independent financial advisers
GAR	Guaranteed Annuity Rate – A rate available to certain pension policyholders to acquire an annuity at a contractually guaranteed conversion rate
GEARING	Gross shareholder debt (gearing basis) as a percentage of the gross MCEV
GROSS MCEV	Gross MCEV is the sum of the Group MCEV and the value of the shareholder and hybrid debt as included in the MCEV
GROSS SHAREHOLDER DEBT (FINANCIAL LEVERAGE BASIS)	Gross shareholder debt (financial leverage basis) is defined as the sum of the notional face value of shareholder debt and 100% of the face value of the Tier 1 notes.
GROSS SHAREHOLDER DEBT (GEARING BASIS)	Gross shareholder debt (gearing basis) is defined as the sum of the IFRS carrying value of shareholder debt (as disclosed in the Borrowings note in the IFRS financial statements) and 50% of the IFRS carrying value of the Tier 1 Notes given the hybrid nature of that instrument
HMRC	Her Majesty's Revenue and Customs
HOLDING COMPANIES	Refers to Phoenix Group Holdings, PGH Capital Limited, Phoenix Life Holdings Limited, Pearl Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Group Holdings (No. 1) Limited, PGH (TC1) Limited, PGH (TC2) Limited, PGH (MC1) Limited, PGH (MC2) Limited, PGH (LCA) Limited, PGH (LCB) Limited, PGH (LC1) Limited, PGH (LC2) Limited and Pearl Life Holdings Limited
ICA	Individual Capital Assessment – A life company's Pillar 2 assessment of its capital requirements to ensure that assets exceed liabilities 99.5% of the time over a 1-year period or (in other words) to be able to withstand a 1 in 200 year event
IFRS	International Financial Reporting Standards – Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board
IGD	Insurance Groups Directive – The European Directive setting out the current capital adequacy

	regime for insurance groups as implemented by the PRA
IMC	Investment Management Contract – A contract between an investor and an investment manager
INCREMENTAL EMBEDDED VALUE	Enhancement of MCEV through management actions
IN-FORCE	Long-term business written before the period end and which has not terminated before the period end
INHERITED ESTATE	The assets of the long-term with-profit funds less the realistic reserves for non-profit policies written into the non-profit fund, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees
LIBOR	London Interbank Offer Rate – The average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another
LSE	London Stock Exchange
LTIP	Long-Term Incentive Plan – The part of an executive's remuneration designed to incentivise long–term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to Group strategy
MCEV	Market Consistent Embedded Value – A measure of the consolidated value of shareholders' interests calculated using the Group's MCEV methodology as described in the Basis of preparation section of the MCEV supplementary information
MSA	Management Services Agreement – Contracts that exist between Phoenix Life and management services companies or between management services companies and their outsource partners
NET SHAREHOLDER DEBT	Shareholder debt (including the Tier 1 Notes) less holding company cash and cash equivalents
NON-ECONOMIC ASSUMPTIONS	Assumptions related to future levels of mortality, morbidity, persistency and expenses
NON-PROFIT FUND	A fund which is not a with-profit fund (see page 232), where risks and rewards of the fund fall wholly to shareholders
OPEN ENDED INVESTMENT COMPANIES	A type of company or a fund in the UK that is structured to invest in other companies with the ability to adjust its investment criteria and fund size
OPERATING COMPANIES	Refers to the trading companies within Phoenix Life (which includes Opal Reassurance Limited)
PART VII TRANSFER	The transfer of insurance policies under Part VII of FSMA 2000. The insurers involved can be in the same corporate group or in different groups. Transfers require the consent of the High Court, which will consider the views of the PRA and FCA and of an Independent Expert
PARTICIPATING BUSINESS	See with-profit fund
PERIPHERAL EUROZONE	Refers to Portugal, Ireland, Italy, Greece and Spain
PIK	Payment-in-kind – Interest on a bond is paid other than in cash, most commonly by increasing the principal
PILLAR 1	EU-directive-based capital requirements as implemented by the PRA for insurance companies. The Pillar 1 surplus is the excess of available capital resources over the regulatory capital resource requirements
PILLAR 2	The PRA's Pillar 2 risk-based capital requirements for insurance companies that have been implemented in the UK. The Pillar 2 surplus is the excess of available capital resources over capital calculated on an economic basis required to ensure entities can meet their liabilities. It is based on a self-assessment methodology called the ICA ('Individual Capital Assessment')
PLHL ICA	PLHL ICA is an assessment, on an economic basis, of the capital resources and requirements arising from the obligations and risks which exist outside the Group's life companies
PPFM	Principles and Practices of Financial Management – A publicly available document which explains how a company's with-profit business is run. As part of demonstrating that customers are treated fairly, the Board certifies that the PPFM has been complied with
PRA	Prudential Regulation Authority – The body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA and FCA use a Memorandum of Understanding to co-ordinate and carry out their respective responsibilities
PROTECTION POLICY	A policy which provides benefits payable on certain events. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness
PVFP	Present Value of Future Profits – The present value of profits attributable to shareholders arising from the relevant in-force business
SOLVENCY II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards that will replace the current Solvency I requirements

TCF	Treating Customers Fairly – The FCA aims to secure an appropriate degree of protection for customers and protect/enhance the integrity of the UK financial system
TIER 1 NOTES	£500 million Perpetual Reset Capital Securities issued by Pearl Group Holdings (No. 1) Limited. Following amendments to the Notes in 2010, the principal amount outstanding as at 31 December 2014 is £425 million
TOTAL SHAREHOLDER RETURN	The total return, over a fixed period, to an investor in terms of share price growth and dividends (assuming that dividends paid are re-invested, on the ex-dividend date, in acquiring further shares)
UK CORPORATE GOVERNANCE CODE	Standards of good corporate governance practice in the UK relating to issues such as board composition and development, remuneration, accountability, audit and relations with shareholders
UKCPT	UK Commercial Property Trust Limited – A property subsidiary of the Group which is domiciled in Guernsey and listed on the London Stock Exchange
UK GAAP	Generally Accepted Accounting Principles adopted within the UK
UNIT-LINKED POLICY	A policy where the benefits are determined by the investment performance of the underlying assets in the unit linked fund
VIF	The Value of In-Force business in the MCEV – The Present Value of Future Profits ('PVFP') plus the Time Value of Financial Options and Guarantees ('TVFOG') less the Frictional Cost of Required Capital ('COC')
WITH-PROFIT FUND	A fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. Also known as a participating fund as policyholders have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in the with-profit funds in the UK is split 90:10
WPICC	With-Profit Insurance Capital Component – The WPICC is the amount by which the regulatory surplus exceeds the realistic surplus for with-profit funds

REDUCING OUR ENVIRONMENTAL IMPACT

In line with our Corporate Responsibility programme, and as part of our desire to reduce our environmental impact, you can view key information on our website at www.thephoenixgroup.com.

Our Investor Relations section includes information such as our most recent news and announcements, results presentations, annual and interim reports, share-price performance, AGM and EGM information, UK Regulatory Returns and contact information.

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

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

PAPER INFORMATION

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