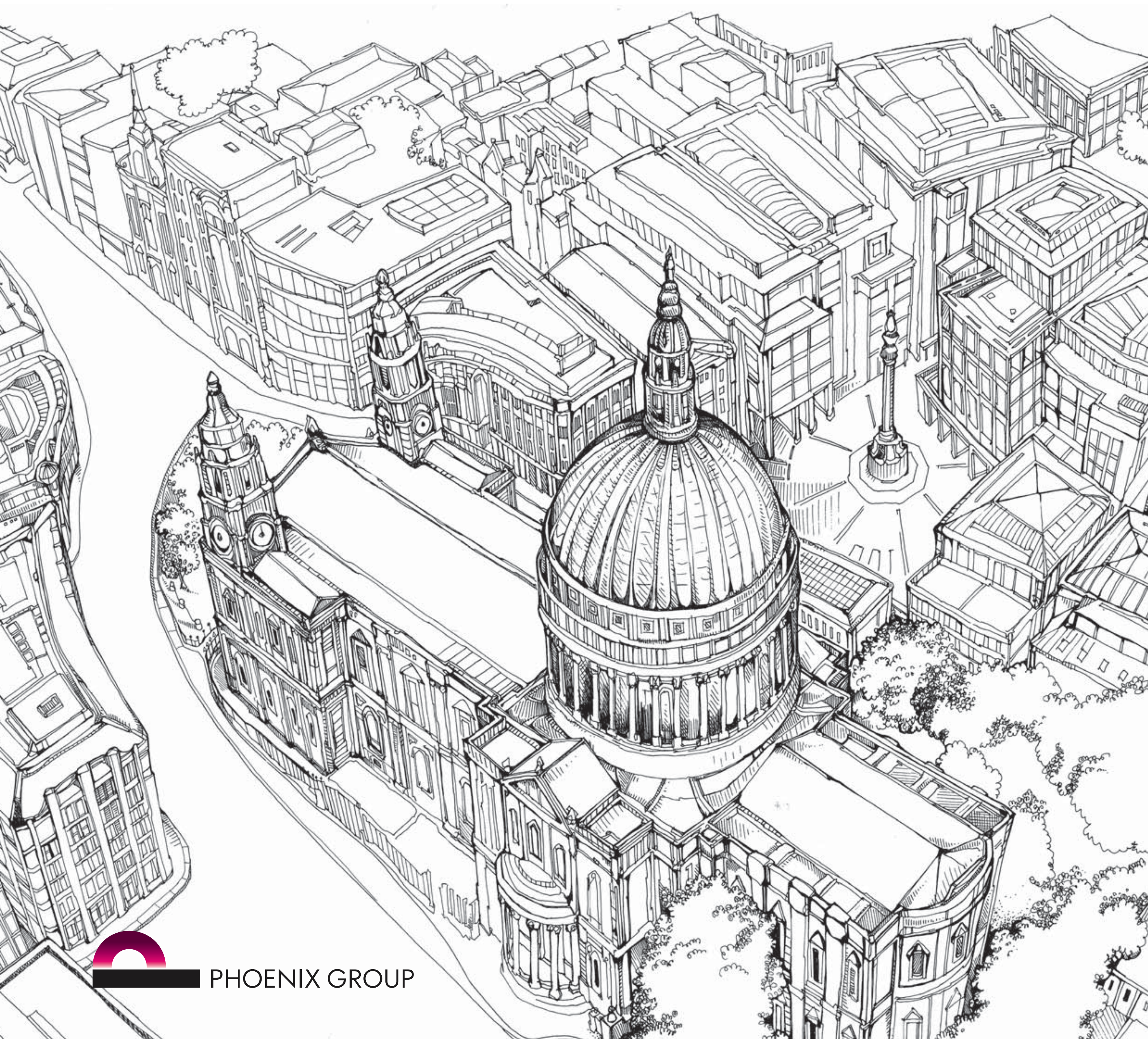
PHOENIX GROUP HOLDINGS

ANNUAL REPORT AND ACCOUNTS 2013



PHOENIX GROUP

2013 WAS AN EVENTFUL YEAR FOR THE PHOENIX GROUP. WE HAVE PROGRESSED IN STRENGTHENING THE BALANCE SHEET AND SIMPLIFYING THE GROUP'S STRUCTURE AND WE HAVE ALSO DELIVERED AGAINST OUR FINANCIAL TARGETS.

BUSINESS OVERVIEW

Phoenix Group is the UK's largest specialist closed life and pension fund consolidator with over 5 million policyholders and £68.6 billion of Group assets under management. Our business manages closed life funds in an efficient and secure manner, protecting and enhancing policyholders' interests whilst maximising value for the Group's shareholders.

OUR BUSINESS MODEL

As a closed life fund consolidator, Phoenix Life focuses on the efficient run-off of existing policies, maximising economies of scale and generating capital efficiencies through operational improvements. Ignis Asset Management focuses on delivering strong investment performance and high quality service to its clients.

For a detailed look at our business model
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PHOENIX LIFE
Aims to deliver innovative financial management and operational excellence

IGNIS ASSET MANAGEMENT
Aims to deliver superior investment performance and client service

PHOENIX GROUP
Delivery of strategic initiatives

EVOLUTION OF THE PHOENIX GROUP

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

1806
London Life established

1857
Pearl Loan Company established

1835
NPI established

2005
Pearl Group created

2008
Pearl Group acquires Resolution plc

2009
Liberty Acquisition Holdings (International) acquires Pearl Group

2010
Pearl Group renamed Phoenix Group Holdings and achieves Premium Listing on London Stock Exchange

1837
Scottish Provident established

2001
Abbey National acquires Scottish Provident

2006
Resolution plc acquires Abbey National's life business

1836
Edinburgh & Glasgow Assurance established

1905
Britannic Assurance Company formed

1999
Britannic acquires Alba Life

2004
Britannic acquires life operations of Allianz Cornhill

2005
Britannic acquires Century Group and merges with Resolution Life Group to form Resolution plc

1782
Phoenix Assurance established

1996
Royal & Sun Alliance established

2004
Resolution Life Group acquires UK life operations of Royal & Sun Alliance

2005
Resolution Life Group acquires Swiss Life (UK) plc

2013 KEY PERFORMANCE INDICATORS

OPERATING COMPANIES' CASH GENERATION
£817m

IGD SURPLUS (ESTIMATED)
£1.2bn

GROUP MCEV
£2,378m

PLHL ICA SURPLUS (ESTIMATED)
£1.2bn

GEARING
44%

GROUP ASSETS UNDER MANAGEMENT
£68.6bn

DIVIDEND PER SHARE
53.4p

IGNIS ASSET MANAGEMENT IFRS OPERATING PROFIT
£49m

GROUP IFRS OPERATING PROFIT
£439m

For a detailed look at our KPIs
Turn to page 24

CONTENTS

CHAIRMAN'S STATEMENT

HOWARD DAVIES
Chairman

"2013 was an eventful and transformational year, which has positioned the Group well for the next phase of its development. I continue to believe in the industrial logic of, and societal need for, our business and remain convinced of our ability to generate value for both policyholders and shareholders."

Phoenix is a unique business, with long-term predictable cash generation and the financial and actuarial expertise to manage the run-off of in-force policies in a way which is beneficial for both policyholders and shareholders.

We announced at the start of 2013 a comprehensive capital raising and debt re-terming package which positioned Phoenix for the next phase of its development. During the year, we continued to enhance the value of the business and accelerate the release of capital. I am pleased to report that, once again, Phoenix has either achieved or exceeded its published financial targets.

At our investor day in May, we focused on cash generation, management actions and opportunities for growth and talked in detail about the potential market opportunity for the consolidation of closed life funds within the UK. We estimate there are over £200 billion of assets within closed funds in the UK, and firmly believe there is value to be generated for policyholders and shareholders by these funds being owned and managed by a specialist consolidator like Phoenix. However, we will only make acquisitions if they meet our acquisition criteria of being at least MCEV neutral, helping to sustain our dividend and helping to degear the business.

During the second half of 2013, we were engaged in discussions with Swiss Re Limited ('Swiss Re') about the combination of Swiss Re's UK closed life business unit, Admin Re with Phoenix. Although we announced in November that these talks had been terminated, we remain convinced that there are other opportunities for Phoenix to grow through M&A, and will continue to pursue potential transaction discussions, if we believe they meet our stated criteria.

Today we have announced the planned divestment of Ignis Asset Management to Standard Life Investments subject to regulatory approval, which will accelerate the achievement of the Group's planned reduction in gearing and position the Group well for future growth. The Board believes that the financial benefits of the divestment and the commencement of a long-term strategic asset management alliance with Standard Life Investments, will mean the Group is well placed to participate in future consolidation of the UK closed life fund market and generate further value for shareholders.

It is very important to us that our policyholders are well looked after and their returns maximised. The only new business that we write is annuities, which we offer to our existing pension policyholders when they reach retirement. The recent Budget proposals in respect of pensions are likely to have a widespread impact on the annuity market in the UK which may lead to a fundamental shift for the industry. However, writing annuities generates a relatively small proportion of our IFRS and MCEV operating profits each year and we do not expect the proposals to have a material impact on the Group's financial targets.

At the time of announcing the capital raising and debt re-terming, we announced a 27% increase in the 2012 final dividend to 26.7p per share, and rebased it to a level which the Board considered to be sustainable. The Board has decided to recommend a final dividend for 2013 of 26.7p per share, in line with this rebased level, bringing the total dividend for the financial year to 53.4p per share.

During the year, our number of Board members has reduced from 14 to 11. I would like to thank Ian Ashken, Charles Clarke, Alastair Lyons and Hugh Osmond who left the Board during the year, for their substantial contribution during their tenure, and the support they provided, to me as Chairman. I would also like to welcome Alastair Barbour to the Board and to his role as Audit Committee Chairman and to thank our existing Board member, Ian Cormack, for taking on the role of Senior Independent Director following Alastair Lyons' departure. After nine years with the Group, Manjit Dale has also notified me of his intention to step down from the Board with effect from our AGM on 30 April 2014. I would like to thank Manjit for his enormous contribution to the Group and on behalf of all of the Board, I would like to wish him well.

Finally, I would like to extend my thanks to my Phoenix colleagues. Without their hard work and commitment, the consistent delivery of management actions and the achievement of our financial targets would not be possible.

It is with great confidence that I look towards the future for Phoenix, and the value which can be generated for policyholders and shareholders alike.

HOWARD DAVIES
Chairman
25 March 2014

JUXON HOUSE, LONDON

The Group functions operate out of Juxon House. For further details turn to page 14.

STRATEGIC REPORT

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

CLIVE BANNISTER
Group Chief Executive Officer

"Phoenix delivered another period of very strong financial performance in 2013. The capital raising and debt re-terming announced in January 2013 has significantly strengthened our balance sheet and capital structure, and we have achieved cash generation beyond the top end of our target range."

INTRODUCTION

2013 was a year of significant achievements and I am delighted to report a very strong set of financial results.

In February, we completed the capital raising and debt re-terming, in which we raised £250 million of new equity, reduced the Group's gearing ratio through the early repayment of £450 million of bank debt, extended the maturity of the Impala loan facility until 2019 and put in place a more flexible amortisation schedule, strengthening the Group strategically and providing us with greater flexibility over our dividend policy.

In September, we completed the legal process to formally transfer approximately £5 billion of annuity liabilities and assets to Guardian Assurance Limited ('Guardian'), which further accelerated the release of capital, improved the Group's solvency position and reduced our exposure to longevity risk.

We remain focused on our strategy to deliver shareholder value and develop our business model to further improve the financial and operational efficiency of the Group's underlying businesses. Phoenix Life and Ignis Asset Management have sustained good levels of customer service and investment returns and we remain dedicated to working with our outsource partners to improve our proposition for policyholders.

The planned divestment of Ignis Asset Management, which we announced today, provides Phoenix with significant strategic and financial benefits. The transaction is compelling, increasing our embedded value, improving our financial flexibility through the prepayment of debt and allowing us to reduce our gearing. We will also continue to benefit from future acquisitions through the consolidation of closed life funds and our long-term strategic partnership with Standard Life Investments.

GROUP HIGHLIGHTS

DELIVERY OF FINANCIAL TARGETS

Phoenix Group sets targets against three key metrics; cash generation, incremental MCEV and gearing. During 2013, we exceeded our cash generation target, achieved our incremental MCEV target a year early, and made significant progress towards our 40% gearing target by the end of 2016.

We generated £817 million of cash from our operating companies in 2013, exceeding our 2013 annual cash generation target of £650 million to £750 million and continuing to demonstrate the underlying strength of the business model.

Against our increased long-term cash generation target for the period from 2011 to 2016 of £3.5 billion, we have achieved £2.3 billion between 2011 and 2013. Today, we set a new long-term cash generation target from 2014 to 2019 of £2.8 billion. We have set the long-term target over the period to 2019, to coincide with the final maturity of the new Impala loan facility in June 2019.

GEARING

44%

2012: 55%

Our year end MCEV increased by £45 million to £2,378 million, versus £2,333 million at 31 December 2012 (on a pro forma basis to reflect the capital raising and debt re-terming). This included £170 million of incremental value generated through management actions. In total since 2011, we have generated £502 million of incremental MCEV compared to our cumulative target of £400 million between 2011 and 2014, significantly exceeding our target, a year ahead of plan.

We have a long-term target to reduce our level of gearing to 40% or below by the end of 2016, in line with our desire to access the debt capital markets prior to the maturity of the new Impala facility. During 2013, we repaid total bank debt of £696 million, being, a £450 million prepayment on the Impala facility, £120 million of mandatory and target amortisation on the Impala facility and an additional £100 million prepayment made in December 2013. This was in addition to £25 million of mandatory amortisation and a £1 million voluntary prepayment on the Pearl facility. These repayments have reduced our total outstanding senior bank debt to £1,613 million and, as a result, we have made significant progress towards our target with gearing at 44% at 31 December 2013.

The divestment of Ignis Asset Management (which is subject to regulatory approval and which is anticipated to complete by the end of the second quarter of 2014) and subsequent planned debt prepayment is expected to reduce gearing by a further 5 percentage points to 39%, thereby allowing us to accelerate the achievement of our long-term gearing target of 40% or below.

OUR CAPITAL POSITION

Our estimated IGD surplus was £1.2 billion at 31 December 2013 with headroom over our IGD capital policy of £0.5 billion (2012 pro forma: £1.2 billion surplus, £0.4 billion headroom). The IGD position was strengthened by £0.2 billion through management actions including completion of the legal process to transfer the £5 billion of annuity liabilities and assets to Guardian. The divestment of Ignis Asset Management and subsequent planned debt prepayment is expected to have a broadly neutral impact on the IGD position.

The Group also undertakes a further Group solvency calculation, the ‘PLHL ICA’, 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 2013, our PLHL ICA surplus was estimated to be £1.2 billion (2012 pro forma: £0.8 billion surplus). The divestment of Ignis Asset Management and subsequent planned debt prepayment is expected to reduce the PLHL ICA surplus by £0.1 billion.

The Group’s Solvency II Delivery Programme is designed to ensure that the Group complies with the requirements of the new regime. We are working with the PRA during the pre-application period of our Internal Model and expect to make an application to the PRA to apply certain of

GROUP CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

IFRS OPERATING PROFIT

£439m

2012: £429m

the transitional measures once additional guidance is available from EIOPA and the PRA on their practical application. Provided the Solvency II Regulations operate as expected, it is the Group's view that the solvency position of the Group will be largely unchanged and that Group solvency will continue to be measured at PLHL under the new regime.

GROUP ASSETS UNDER MANAGEMENT

Group assets under management ('AUM') remained stable at £68.6 billion as at 31 December 2013, compared to £68.6 billion as at 31 December 2012. This reflects the expected run-off of the life company assets offset by strong net inflows from third parties, £1.2 billion of Guardian net assets transferred back to Ignis, which had been under transitional investment management arrangements at 31 December 2012 and positive market movements.

IFRS OPERATING PROFIT

Finally, the Group achieved increased IFRS operating profits of £439 million (2012: £429 million), primarily due to higher terminal bonuses on with-profit funds, the positive impact of revised assumptions for longevity improvements and the non-recurrence of persistency assumption strengthening. This was offset by lower positive impacts from modelling improvements and policy harmonisation management actions (2013: £88 million; 2012: £117 million).

If the divestment of Ignis had occurred on 1 January 2013, the Group's IFRS operating profits for the year ended 31 December 2013 would have been £49 million lower, reflecting the removal of Ignis' contribution to the Group's operating results during that period.

PHOENIX LIFE HIGHLIGHTS

Phoenix Life contributed IFRS operating profit of £414 million, compared to £399 million in 2012, reflecting the above-mentioned improvements compared with 2012.

One of the key successes for Phoenix Life during the second half of 2013 was the completion of the legal process to transfer approximately £5 billion of annuity liabilities and assets to Guardian.

In addition to this important transaction, Phoenix Life made strong progress across several other areas in 2013:

- We completed the migration of 3.2 million in-force policies administered by Diligenta onto the new administration platform, BaNCS, making policy administration more efficient and giving customers access to their policies online.
- We continued to streamline the Group's actuarial modelling systems, and parallel ran the new model with existing models for 2013, simplifying modelling processes and allowing consistent capital management across the business. As a result, the existing models are expected to be decommissioned during 2014.
- The outsourcing of Phoenix Life and Ignis investment administration and related back office services to HSBC Bank plc is now well progressed, with completion expected in 2015.
- We worked closely with our outsource partners to prevent £12.4 million of potential transfers to pensions liberation fraud schemes. Had these cases proceeded, policyholders could have suffered substantial tax charges and high administration fees and potentially could have been left with no pension at all when they reached retirement.
- In September 2013, we agreed the sale of our entire interest in BA(GI), which holds the Group's residual, non-core general insurance business with liabilities totalling £38 million (net of reinsurance), to National Indemnity Company. Completion took place on 18 March 2014 following regulatory approval and is expected to have a marginally positive impact on the Group's MCEV during 2014.

NET THIRD PARTY INFLOWS

£1.9bn

2012: £1.6bn

– During 2013, we increased the distributable estate by £565 million, with around 115,000 policyholders benefiting from the distribution of £157 million of estate during 2013.

IGNIS ASSET MANAGEMENT HIGHLIGHTS

Ignis Asset Management has delivered strong financial performance with IFRS operating profits of £49 million in 2013 compared to £43 million in 2012. The growth in the third party franchise and strong investment performance have offset the natural run-off of life company assets and the impact of restructuring the former joint ventures.

In addition to the remaining Guardian assets which were repatriated, Ignis achieved £1.9 billion of net third party inflows, including liquidity (2012: £1.6 billion). Sales have been particularly strong in the Absolute Return Government Bond Fund ('ARGBF') with a net inflow of £1.4 billion, bringing the total fund size to over £2 billion at 31 December 2013. The Ignis UK Property Fund (now with over £1 billion of assets under management) and the European Smaller Companies fund also saw strong net sales. Third party assets as a proportion of total Group AUM have risen to 22%, doubling from 11% in 2010.

Overall investment performance improved, with 85% of assets under management performing above benchmark (2012: 79%). This has been led by strong performance in Ignis' key funds, with ARGBF delivering a 6% return over the last year (against a SONIA (Sterling Overnight Interbank Average benchmark) return of 0.4%). ARGBF also won the prestigious 'Best Performing Fund Over 2 Years' at the Hedge Fund Journal's UCITS Hedge Awards 2013.

Ignis has been working to broaden its product offerings to accelerate the growth of the third party franchise. The Global Macro Government Bond Fund ('GMGBF') launched in October, designed as the hedge fund version of ARGBF, and building on this successful strategy, is suited to institutional clients with greater risk appetite who seek potentially greater returns. The Absolute Return Emerging Market Debt fund ('AREMD') was launched in November as the third fund in our absolute return fund suite.

Ignis' strong financial performance was achieved whilst continuing to invest in major transformation in its operating platform. The joint ventures transition is nearing completion, with all of the businesses continuing on a standalone basis. The transformation partnership with HSBC Bank plc is ongoing, with completion of the back office outsourcing programme expected in 2015.

CUSTOMERS

'Treating Customers Fairly' is crucial to how we run our business. Security of our policyholder assets is first and foremost for us followed by our aim to maximise returns wherever possible primarily through enhanced distribution of the estate within the life funds. For example, maturity payouts are being enhanced in the Pearl with-profit fund of Phoenix Life Assurance Limited by up to 16%. This is 7% higher than the previous year.

We continually aim to improve customer service. Over the last few years we have been migrating many of our policies from legacy systems to the BaNCS utility platform with our outsource partner Diligenta. Moving more of our customers to one administration platform makes it easier to make improvements to our customer journey. Following migration, for example, more of our customers can now access electronic payments via the industry application Origo. During 2013 we have seen an improvement in the speed of claims pay-outs using this method from an average of 12.8 to 10.1 days.

We recognise the importance of customers obtaining the best rate on their annuity and how providers have a key role to play in ensuring customers are aware of their options. Ahead of the required implementation date of the ABI Code on

GROUP CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

Retirement Choices in March 2013, we made improvements to both the literature and processes for our policyholders reaching retirement to make it easier for customers to understand the options open to them and how they might 'shop around' for a better deal. The code itself did not cover all pension types but in an effort to improve the clarity for the maximum number of customers we have extended our changes to include workplace schemes.

In January 2013, we entered into an arrangement enabling us to introduce our policyholders to Just Retirement. As a leading provider of enhanced annuities, Just Retirement is able to offer Phoenix policyholders access to enhanced annuity products, enabling our policyholders to potentially benefit from the higher rates typically offered to impaired lives.

We are backing up these improvements with policyholder research to make sure we are getting our communications right for all customers. Since 1 March 2013, we have seen an increase in the number of customers (without guarantees) taking an Open Market Option ('OMO') and we now have around 40% of our customers taking this option. For those customers who stay with us, our average pricing for the year was 97% of the average rate of the top five OMO providers.

In line with our strategy, we continue to try to find innovative initiatives for our policyholders. In the latter part of 2013, following legislation which allowed the commutation of small annuities, Phoenix launched an initiative to allow those customers with small pensions in payment to convert that to a lump sum payment. Customers wishing to continue to receive their regular payments can of course continue to do so – our aim is to introduce flexibility where that is of interest to our customers.

We have also been working with the regulators and industry bodies on their reviews of annuities and workplace pensions this year. 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 Government's recent budget proposals, 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 policyholders.

PEOPLE

Phoenix's ability to attract, retain and motivate outstanding talent has, for the second year in succession, been formally recognised through accreditation as one of 'Britain's Top Employers', reflecting our commitment to employee development and engagement. For the first time, employee engagement comprises one element of the corporate component of the Annual Incentive Plan for senior managers and our 2013 employee engagement survey results again compared positively with the Financial Services benchmark.

Phoenix's Corporate Responsibility programme was further embedded in 2013. Employees participated in a number of initiatives designed to minimise the impact on the environment in which we operate and in addition, the Group has promoted its 'Health and Wellbeing' offering, encouraging staff to get the most out of life, in and out of the workplace. Both initiatives contribute to the Group's aim of building a long-term sustainable business. I am also particularly pleased that through the efforts of many of our employees, around £200,000 was raised for the Group's various nominated charities, which includes Company 'matching', which has made a significant difference to those less fortunate than us.

2013 OUTLOOK AND PROSPECTS

FINANCIAL TARGETS

As always, the potential remains for our business to be impacted by economic headwinds, an inability to execute successful transactions or the uncertain and evolving regulatory environment. However, the Group's financial performance during 2013 and the strength of our business model give me confidence in the resilience of the Group's cash flow and MCEV and our ability to deliver value for all our stakeholders.

By 31 December 2013, we had already achieved cash generation of £2.3 billion since 1 January 2011 against our target of £3.5 billion between 2011 and 2016. Today we have set a new long-term cash generation of £2.8 billion between 2014 and 2019 which has been set taking into account the proceeds of the divestment of Ignis. We have set the long-term target over the period to 2019, to coincide with the final maturity of the Impala loan facility in June 2019. We have also set a 2014 annual cash generation target of between £500 million and £550 million, excluding the proceeds expected to be received from the divestment.

In addition, having already achieved £502 million of incremental MCEV between 2011 and 2013, thereby significantly exceeding our cumulative incremental MCEV target of £400 million between 2011 and 2014 with a year of the target period still to go, we have set a new incremental MCEV target of £300 million between 2014 and 2016 excluding the impact of the divestment.

The combination of cash generation and enhancements to MCEV during 2013 and the divestment of Ignis is expected to reduce gearing to 39%, thereby accelerating the achievement of our long-term gearing target of 40% and increasing the Group's financial flexibility with regards to any potential future acquisition.

Our financial targets above are set on the assumption that Solvency II regulations operate as we expect.

We do not expect our financial targets to be materially impacted by the recent Budget proposals in relation to annuities.

CONCLUSION

I would like to thank my colleagues for their hard work during 2013. It is their unwavering commitment to looking after our policyholders and investment management clients, delivering management actions through the effective management of capital, operations and risk, and achieving superior investment performance which allow us to look forward with great confidence to the future for Phoenix. I firmly believe that we can continue to deliver value for all our stakeholders through continued organic improvements and our renewed focus on growth.

CLIVE BANNISTER
Group Chief Executive Officer
25 March 2014

OUR BUSINESS MODEL

Phoenix Group is the UK's largest specialist closed life and pension fund consolidator with over 5 million policyholders. The planned divestment of Ignis Asset Management to Standard Life Investments, subject to regulatory approval, will increase the emphasis on the efficient run off of our existing closed life business and the exploration of future consolidation opportunities, while at the same time leveraging the long-term strategic partnership with Standard Life Investments.

WHAT WE DO

PHOENIX LIFE

Aims to deliver innovative financial management and operational excellence.

LIFE ASSURANCE

Through Phoenix Life we manage life assurance funds which no longer actively sell new life assurance policies and which run off gradually over time. These 'closed life funds' within the Group consist of over 5 million policyholders and a total of approximately £50.9 billion of financial and property assets.

Phoenix Life manages these funds using its skills and expertise in the areas of capital, financial, risk and cost management.

For further details of Phoenix Life
Turn to page 14

POLICYHOLDERS
Over 5m

CASH GENERATION
£794m

IFRS OPERATING PROFIT
£414m

IGNIS ASSET MANAGEMENT

Aims to deliver superior investment performance and client service.

ASSET MANAGEMENT

Ignis manages the funds that back the investments of Phoenix Life policyholders and develops investment propositions for third party clients in the UK and international markets.

Ignis aims to maximise risk-adjusted returns on the assets it manages for the benefit of policyholders, third party clients and shareholders.

For further details of Ignis
Turn to page 16

IGNIS ASSETS UNDER MANAGEMENT, OVERSIGHT AND ADVICE
£65.9bn

IFRS OPERATING PROFIT
£49m

NET THIRD PARTY INFLOWS
£1.9bn

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 as free surplus in the form of cash.

We create value from our in-force book of closed life funds, generating profits from participation in investment returns, policyholder charges and management fees earned on assets (to the extent they exceed expenses). These additional profits from the in-force policies can also be released by the Group's life companies as free surplus 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.

Ignis generates revenues from managing the investments of the Group's life companies as well as third party clients.

Ignis is incentivised to maximise investment performance for the Group's policyholders through performance fee arrangements. In addition, Ignis is seeking to grow the assets it manages for third party investors.

External outsource partners are used for back office administration, thereby minimising fixed costs and allowing Ignis to focus on its core capabilities of investment performance and distribution.

PHOENIX GROUP

– Value generated by Phoenix Life and Ignis 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.

– As a closed life business, the release of cash and capital is reliable 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.

– The Group functions provide support for, and coordination and delivery of, the Group's strategic objectives, whilst managing the relationships with our external stakeholders, including shareholders, banks, pension schemes and regulators. The Group functions also consider potential acquisition or disposal opportunities to enhance value for the Group.

For further details of value creation through acquisitions
Turn to page 22

OPERATING STRUCTURE

The Group has two core segments: life assurance – Phoenix Life; and asset management – Ignis. Following the planned divestment of Ignis to Standard Life Investments, subject to regulatory approval, asset management will be performed by Ignis under Standard Life Investment's ownership.

In addition, the Group functions provide support for, and coordination and delivery of, the Group's strategic objectives.

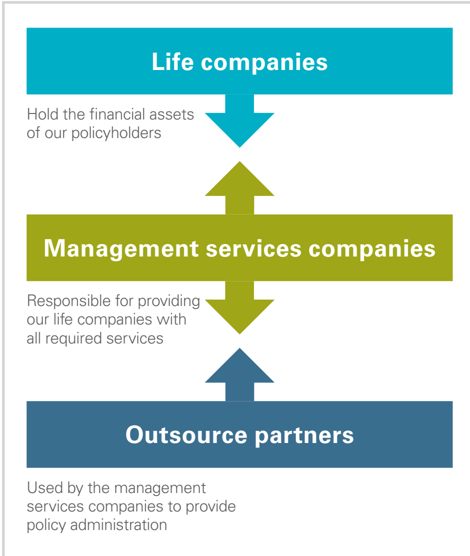
GROUP FUNCTIONS

At Group level, Phoenix operates centralised functions that provide Group-wide and corporate-level services and manage corporate activity. These functions include 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 in Juxon House, London, and are led by the Group Chief Executive Officer, Clive Bannister.

PHOENIX LIFE

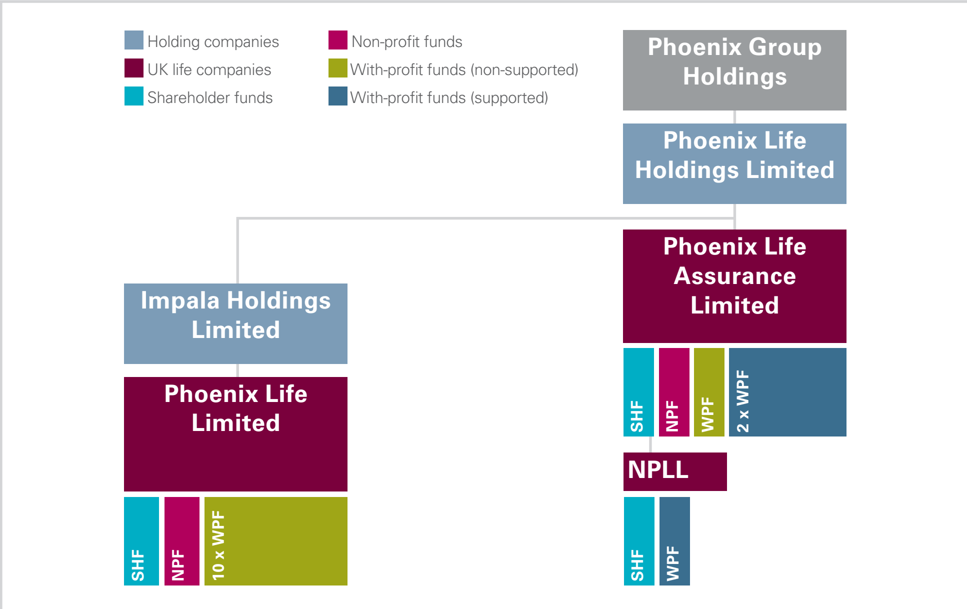
Phoenix Life is responsible for the management of the Group's life funds. Phoenix Life's experienced and focused management team is led by its Chief Executive Officer, Mike Merrick. Based in Wythall, near Birmingham, it has a track record of successfully integrating life assurance businesses and is developing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

PHOENIX LIFE



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

PHOENIX LIFE – COMPANIES AND FUNDS



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. By bringing together separate life companies and funds, the Group's business model is simplified which both reduces complexity and releases capital.

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 the fixed cost element of our operations and convert to a variable cost structure.

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 planned divestment of Ignis, subject to regulatory approval, will have limited impact on the operating structure of Phoenix Life. The relationship with Ignis already operates on an arms length basis and this will continue with Ignis under the ownership of Standard Life Investments. The existing outsourcer model will be used to oversee and manage the relationship with Standard Life Investments.

OPERATING STRUCTURE CONTINUED

IGNIS ASSET MANAGEMENT

Ignis Asset Management is the Group's asset management business and is led by its Chief Executive Officer, Chris Samuel.

Ignis is responsible for £65.9 billion of assets, including £50.9 billion of assets of the Group's life and holding companies. Ignis also has a significant and growing third party business, now comprising 23% of its assets under management, providing investment management services to third party clients, including retail, wholesale and institutional investors in the UK and overseas.

With offices in Cheapside, London and Bothwell Street, Glasgow, Ignis has investment capabilities across multiple asset classes organised into four investment business units; Fixed Income & Solutions, Equities, Real Estate, and Advisors – Ignis's fund of fund business. Alongside its investment capabilities Ignis has a series of investments in former joint ventures.

Ignis operates a dedicated Insurance channel which services Phoenix Life and other life company clients. Ignis has sought to institutionalise all of its channels with Global Accounts added in 2012 to develop business outside of the UK with the larger institutions, sovereign wealth funds and other similar clients. Ignis operates dedicated support functions with a governance structure that includes an independent Board and independent Non-Executive Directors. This demonstrates an ability to operate as an independent asset manager which is key to marketing and growing the third party franchise.

The planned divestment of Ignis to Standard Life Investments, subject to regulatory approval, will result in a long-term strategic partnership between Phoenix Group and Standard Life Investments which will allow the Group to participate in future consolidation of the UK closed life fund market and generate further value for shareholders.

IGNIS OPERATING STRUCTURE AND ASSETS UNDER MANAGEMENT, OVERSIGHT AND ADVICE

£46.1 BILLION	£15.1 BILLION	£3.0 BILLION	£1.7 BILLION
Ignis Fixed Income & Solutions – Liquidity – Rates – Credit – Liability Driven Investment ('LDI') – Emerging Market Debt – Tactical Asset Allocation ('TAA')	**Ignis Equities** – UK – Europe – Asia – Japan – US – Global – Emerging Markets	**Ignis Real Estate** – Unit Trust – Investment Trust – Segregated Mandates	**Ignis Advisors** – Fund of Hedge Funds – Fund of Private Equity – Fund of Real Estate – Retail Multi Manager

Sales, marketing and client service

- Insurance (Life Company)
- UK Institutional
- UK Wholesale
- International
- Global Accounts

Operations, support and controls

- Risk, Legal and Compliance
- Finance and Strategy
- Operations and IT
- HR
- HSBC Operating Platform

Further details of Ignis' investment business units and product offerings can be found on our website at www.ignisasset.com

OUR STRATEGY

Phoenix Group's mission is to improve returns for its 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 for Phoenix Group are outlined in more detail over the next few pages.

OUR STRATEGY CONTINUED

MANAGE CAPITAL

For further details of the Group's Risk Management Framework and principal risks and uncertainties
Turn to pages 44 and 49

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 sudden 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 simplifying our capital structure while addressing the diverse needs of various stakeholders, including policyholders, shareholders, lending banks 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. Our financial target to reduce gearing will help support the simplification of our capital structure and achievement of an investment grade credit rating.

KEY INITIATIVES AND PROGRESS IN 2013

- In January 2013 we announced the successful £250 million capital raising and debt re-terming which strengthened the Group's balance sheet and reduced gearing. We repaid £696 million of bank debt in 2013, reducing gearing to 44% while retaining a resilient IGD surplus and PLHL ICA surplus underpinned by strong cash generation.
- In the second half of 2013, we gained Court approval for the previously announced legal transfer of £5 billion of annuity liabilities and assets to Guardian Assurance Limited, effective 1 October 2013, improving our IGD surplus and PLHL ICA surplus to £1.2 billion and £1.2 billion respectively.
- We further developed the Financial Management Group within Group functions to proactively manage financial risk, source and apply new market ideas and technologies, and build investment strategy processes and capabilities. In addition to other management actions in 2013, this enabled us to re-engineer our approach to asset and liability matching and reduce our capital requirements by eliminating unrewarded risks.

PRIORITIES FOR 2014

- Continue to implement new management actions to enhance our capital metrics
- Progress with our Solvency II Internal Model application
- Continue to monitor the potential impact of Solvency II and develop management actions to optimise the Solvency II balance sheet
- Further reduce gearing and examine opportunities to further simplify existing Group debt arrangements.

For further details of our capital KPIs
Turn to page 39

DRIVE VALUE

For further details of our cash and MCEV KPIs
Turn to pages 28 and 31

In order to drive value there are a number of life company 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 performance 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 64% of premiums written in 2013 had valuable guaranteed annuity rates.

Additional value can be generated from further acquisitions of closed life books of business, as detailed on page 22.

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 2013

- In 2013 we exceeded our annual cash generation target and met our incremental MCEV enhancement target a year ahead of plan.
- We engaged in discussions with Swiss Re about the combination of Admin Re with Phoenix Group. These talks terminated in November 2013, but we continue to explore other acquisition opportunities.
- £791 million of vesting annuities were retained within the Group in 2013, of which £505 million related to policies with guaranteed annuity rates.
- We continued to streamline the Group's actuarial modelling systems, and parallel ran the new model with existing models during 2013, simplifying modelling processes and allowing consistent capital management across the business. This and other management actions enhanced MCEV by £170 million in 2013.
- Phoenix Life and Ignis Asset Management continue to make progress in consolidating the investment administration and selected back office services with a single outsource provider, HSBC Bank plc, streamlining the operations and increasing efficiency.
- Ignis generated third party sales of £1.9 billion including liquidity.
- 85% of Ignis assets under management performed above benchmark (2012: 79%), driving enhanced returns for policyholders and increased revenues for shareholders.

PRIORITIES FOR 2014:

- Target cash flows of £500 million–£550 million in 2014, assuming Solvency II regulations operate as expected
- Achieve £300 million of MCEV enhancements through management actions over 2014 – 2016
- Decommission the existing actuarial modelling systems.

OUR STRATEGY CONTINUED

IMPROVE CUSTOMER OUTCOMES

Improving customer outcomes is central to our vision of being the saver-friendly 'industry solution'. 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 three key areas of focus in relation to our customers:

- Value – we aim to optimise customer outcomes
- Service – customers want to be treated fairly, with empathy and respect in a timely fashion
- Security – customers expect their investment to be secure in a well managed company.

Financial services products are usually long-term and it is often the case that 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 these products. Phoenix is committed to increasing levels of engagement with its customers.

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 customers scoring all aspects of service highly. 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.

KEY INITIATIVES AND PROGRESS IN 2013

- In the latter part of 2013, Phoenix launched an initiative to allow customers with small pensions-in-payment to convert them to a lump sum payment, and is one of the first life and pension providers to offer this option. Almost two-thirds of those policyholders mailed with the offer have taken advantage of it, and the Company has been praised by the media for looking after the needs of those with very small pension policies.
- The migration of over 3 million policies to the BaNCS utility platform has resulted in real improvements in the speed of claims payouts for both life and pensions customers, with payments now up to 18% faster than pre migration.
- The Group's new 'point to the web' strategy has reduced the length of annual statements for 1.3 million customers from five pages to one, enabling customers to receive the right level of information.
- We have increased policyholder payments through inherited estate distribution totalling £157 million.
- We have also been working with the regulators and industry bodies on their reviews of annuities and workplace pensions this year. Both reviews are welcomed and 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 light of the Government's recent budget proposals, it is crucial that our existing customers with guarantees remain aware of the value of the guaranteed rates attached to their policies.

PRIORITIES FOR 2014:

- Improve the pay-outs for customers where appropriate
- Increase customers' engagement with their policies, ensuring customers take the right decisions at key life stages
- Enhance our service to our customers particularly at the points when they are claiming the proceeds of their policy.

For further details of customer service initiatives in 2013
See the full Corporate Responsibility report on our website

ENGAGE PEOPLE

At Phoenix Group, we believe an engaged workforce, one that feels challenged, rewarded and committed to the goals of the organisation, is essential to delivering our financial and operational targets.

HOW WE MEASURE DELIVERY

We have focused consistently on employee engagement for a number of years, with the annual survey[1] underpinning our engagement programme, helping shape action plans developed with team managers.

KEY INITIATIVES AND PROGRESS IN 2013

- In 2013, we achieved an overall Group engagement index score of 72%, in line with our Financial Services benchmark of 72% (2012: 73% against benchmark of 70%).
- In 2013 we launched development programmes specifically designed to improve the skills of new and aspiring line managers. In addition, 40 of our senior leaders in Group and Phoenix Life attended development centres which assessed their core competencies and led to bespoke development plans.
- Our Executive Committee presented the Group's goals to management and staff in face to face briefings and management conferences throughout the year. In the 2013 survey, 88% of staff responded positively that they have "a clear understanding of the purpose and objectives of the Phoenix Group", 10% above Financial Services benchmark.
- The Phoenix Group Corporate Responsibility and staff engagement agendas are complementary. Through a programme of community and charity work, the Group leverages significant team building and development benefits from staff through team fundraising, volunteering activities and social events.

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

PRIORITIES FOR 2014:

- Continue to strengthen our pipeline of future senior leaders and further enhance our development offering for all staff
- Introduce new and contemporary means of communication and collaboration with our workforce
- Achieve engagement index targets for Phoenix Life and Group functions of 76% (75% achieved in 2013).

1 The Phoenix Group annual engagement survey is administered by ORC International, a global research company which benchmarks the Group's results against 31 Financial Services companies in the UK.

OUR STRATEGY CONTINUED

During 2013, the Group has made further progress in building a stable and simplified business. In particular, the capital raising and debt re-terming announced in January 2013 provided a long-term capital structure and platform for future growth, and allows the Group to contemplate potential acquisition opportunities.

OPPORTUNITIES FOR FUTURE GROWTH

POTENTIAL MARKET OPPORTUNITIES

We have estimated that the total UK closed life fund market opportunity for Phoenix is at least £200 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-profit business, changing customer demands and regulatory change driving consolidation in the mutual sector. 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 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 its flexibility to acquire either life companies, funds or portfolios of businesses, and the Group's appetite for 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. At the time of the capital raising and debt re-terming, we identified the criteria we would target in making an acquisition, being:

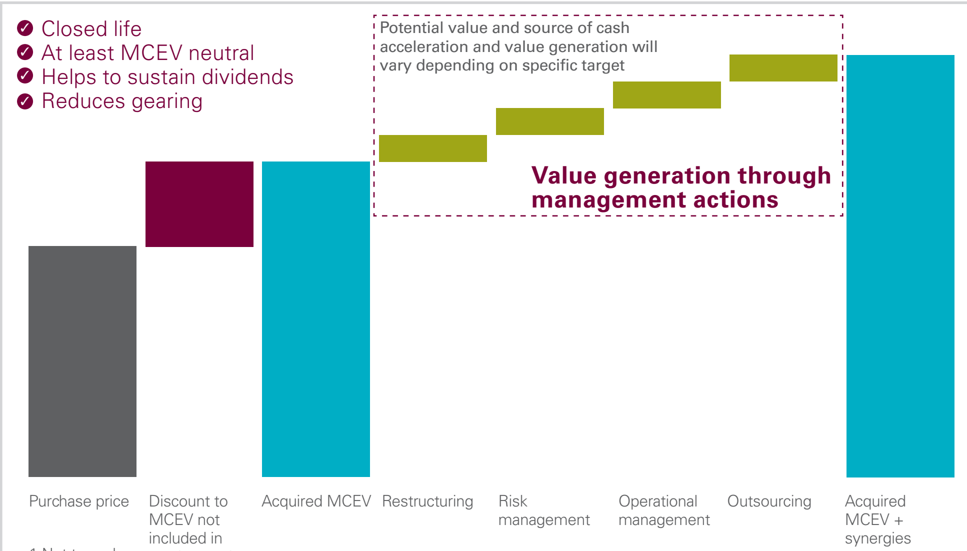
- Closed life. Any acquisition would be in the closed life fund sector within the UK and Ireland
- At least MCEV neutral
- Helps to sustain dividends
- Reduces gearing. Any acquisition would only be undertaken if it resulted in a sustainable level of gearing for the combined Group of appreciably below 40% (around the mid-point of the 35% to 40%) consistent with the strategy of lowering the Group's gearing to attain an appropriate credit rating and obtaining regulatory approval.

Additional value through 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. 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 planned divestment of Ignis, subject to regulatory approval, will result 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.

SOURCES OF CASH ACCELERATION AND VALUE GENERATION FROM AN ACQUISITION[1]



1 Not to scale.

FINANCIAL PERFORMANCE
KEY PERFORMANCE INDICATORS

OPERATING COMPANIES' CASH GENERATION

£817m
2012: £690m

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

ANALYSIS

Continued strong cash generation of £817 million by the Group's operating companies enabled the Group to exceed its 2013 target for cash generation of £650 million to £750 million.

Management actions in themselves generated cash flows of £332 million, mainly relating to the annuity transaction with Guardian Assurance Limited ('Guardian') and other de-risking activities.

DEFINITION

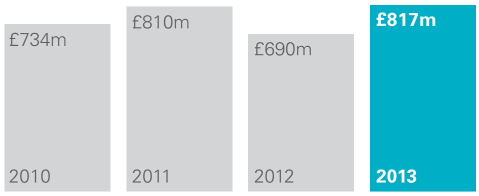
Operating companies' cash generation is a measure of cash and cash equivalents remitted by the Group's operating companies to the holding companies and is available to cover dividends, debt servicing and repayment, pension scheme contributions and operating expenses.

QUANTIFIED TARGET[1]

The cumulative cash flow target for 2011 to 2016 was £3.5 billion, against which £2.3 billion had been achieved by 31 December 2013.

We set a new cumulative cash flow target of £2.8 billion for 2014 to 2019 which has been set taking into account the proceeds expected to be received from the divestment of Ignis. £500 million to £550 million of these cash flows are expected to be generated in 2014 in addition to the proceeds expected from the divestment.

KPI



GROUP MCEV

£2,378m
2012: £2,122m

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 £256 million at 31 December 2013, benefiting from the net proceeds of the equity raise of £232 million and value enhancing management actions which have delivered an incremental uplift to MCEV of £170 million.

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[1]

Since 2011 the Group has generated £502 million of incremental MCEV, exceeding its cumulative target of £400 million between 2011 and 2014 with a year of the target period still to go.

We set a new incremental MCEV target of £300 million between 2014 and 2016.

KPI

1 This target has been set on the assumption that Solvency II regulations operate as expected.

GEARING

44%
2012: 55%

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 44% at 31 December 2013 reflecting the net proceeds of the equity raise of £232 million, enhancing management actions and debt repayments of £696 million during the year.

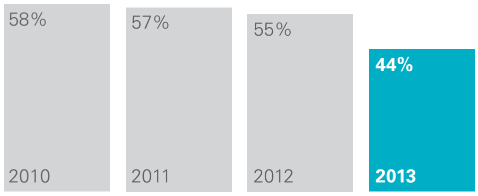
DEFINITION

The Group calculates its gearing as gross shareholder debt as a percentage of gross MCEV. Gross shareholder debt is defined as the sum of the IFRS carrying value of shareholder debt and 50% of the IFRS carrying value of the Tier 1 bonds 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 hybrid debt as included in the MCEV.

QUANTIFIED TARGET[1]

The Group's target is to reduce the gearing ratio to 40% by the end of 2016.

KPI



DIVIDEND PER SHARE

53.4p
2012: 47.7p

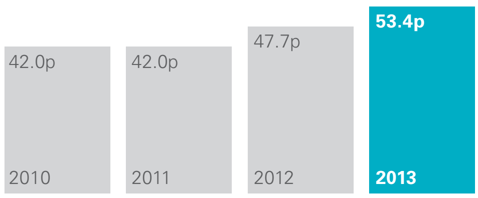
ANALYSIS

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 2 May 2014, subject to compliance with the processes set out in the Group's main loan facilities and 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.

KPI



KEY PERFORMANCE INDICATORS CONTINUED

GROUP IFRS OPERATING PROFIT

£439m

2012: £429m (restated)[1]

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 and gives an insight into the Group's ability to generate cash flows to support dividends

ANALYSIS

Group IFRS operating profit has increased by £10 million to £439 million due to one-off benefits generated from ongoing system and modelling improvements of £98 million (2012: £117 million) and the positive impact of assumption changes compared to the prior year, partly offset by the natural life company run-off.

DEFINITION

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

KPI

1 The Group has adopted the revised accounting standard, IAS 19 *Employee benefits* for the first time in 2013 and has consequently changed its basis for determining income or expense relating to the defined benefit schemes. This change in accounting policy has been applied retrospectively resulting in a £19 million reduction in Group costs in 2012.

IGD SURPLUS (ESTIMATED)

£1.2bn

2012: £1.4bn

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

ANALYSIS

The estimated IGD surplus has decreased to £1.2 billion following dividend payments, debt financing and repayments of £0.6 billion in the period net of proceeds from the equity raise, partly offset by £0.4 billion of capital items. The surplus of £1.2 billion represents headroom of £0.5 billion (2012: £0.6 billion) over the Group's IGD capital policy.

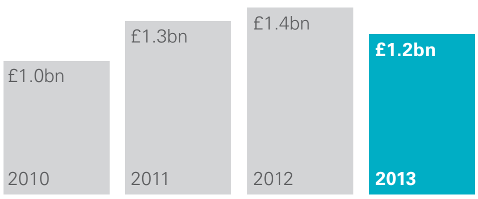
DEFINITION

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.

KPI



PLHL ICA SURPLUS (ESTIMATED)

£1.2bn
2012: £1.0bn

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

ANALYSIS

The PLHL ICA surplus increased during the year driven by free surplus generation within Phoenix Life which more than offset the impact of shareholder dividend, debt financing and repayments.

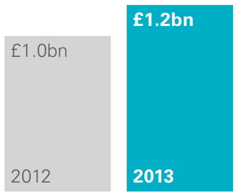
DEFINITION

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.

KPI



GROUP ASSETS UNDER MANAGEMENT

£68.6bn
2012: £68.6bn

Assets under management are a key driver of Ignis' operating profit

ANALYSIS

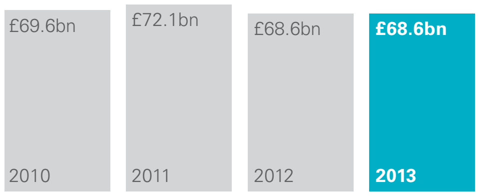
Total Group assets under management were stable at £68.6 billion.

The run-off of the closed life business was offset by third party inflows, including Guardian assets transferred back to Ignis, and positive market movements.

DEFINITION

Group assets under management represent life company assets (excluding collateral on stock-lending arrangements), holding company cash, and third party assets managed by Ignis.

KPI



IGNIS ASSET MANAGEMENT IFRS OPERATING PROFIT

£49m
2012: £43m

IFRS operating profit is an indicator of Ignis' growth and ability to generate cash flows for the Group

ANALYSIS

Ignis' IFRS operating profit of £49 million benefited from higher third party revenues due to growth in third party business offset by a reduction in life company and joint venture revenues.

DEFINITION

Ignis' IFRS operating profit excludes non-recurring income and expenses.

KPI

CASH GENERATION

OPERATING COMPANIES' CASH GENERATION

£817m

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, 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, as well as taking into account regulatory and other restrictions on the availability and transferability of capital. 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. 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 2013, the Group delivered cash flows from its operating subsidiaries of £817 million, including cash flows of £332 million from management actions. The latter increased cash flows primarily through the annuity transfer transaction with Guardian together with benefits delivered from modelling improvement exercises and other investment and operational de-risking initiatives.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Cash and cash equivalents at 1 January	**1,066**	837
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**794**	661
Cash receipts from Ignis Asset Management	**23**	29
Total receipts of cash by holding companies[1]	**817**	690
Net proceeds of the equity raise[2]	**211**	–
Total receipts	**1,028**	690
Uses of cash:		
Operating expenses	**34**	37
Pension scheme contributions	**96**	50
Debt interest	**147**	115
Total recurring outflows	**277**	202
Non-recurring outflows	**6**	21
Uses of cash before debt repayments and shareholder dividend	**283**	223
Debt repayments	**696**	165
Shareholder dividend	**120**	73
Total uses of cash	**1,099**	461
Cash and cash equivalents at 31 December[3]	**995**	1,066

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

2 Proceeds of the equity raise of £232 million net of associated fees and commission of £18 million, and after the deduction of £21 million of fees associated with the re-terming of the Impala loan facility.

3 Closing balance at 31 December 2013 includes required prudential cash buffer of £150 million (2012: £150 million).

OPERATING COMPANIES' CASH GENERATION

Cash remitted by Phoenix Life during 2013 was £794 million (2012: £661 million), reflecting the benefit of management actions implemented during the period and cash remitted by Ignis was £23 million (2012: £29 million). This enabled the Group to exceed its cash generation target range of £650 million to £750 million for the year ended 31 December 2013.

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 plus the IFRS net assets of the service companies:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Opening free surplus	**514**	93
IFRS operating profit	**414**	399
IFRS investment variances and non-recurring items	**28**	105
IFRS tax	**(96)**	(14)
Movements in capital requirements and policy	**371**	663
Valuation differences and other[4]	**92**	(71)
Free surplus generated in the period	**809**	1,082
Cash distributed to holding companies	**(794)**	(661)
Closing free surplus[4]	**529**	514

4 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 £809 million reflects completion of the legal transfer of the annuity liabilities and other management actions, the inherent release of capital requirements from the run-off of the life funds and the positive impact of increasing yields on capital requirements and policy. The prior period comparative included the net capital benefits of the reinsurance leg of the annuity transfer transaction and the transfer of the business of London Life Limited to Phoenix Life Assurance Limited.

RECURRING CASH OUTFLOWS

Operating expenses of £34 million (2012: £37 million) decreased as a result of reduced corporate costs, reflecting the impact of cost management initiatives.

Pension scheme contributions of £96 million (2012: £50 million) increased primarily due to the revised contribution profile as agreed with the Pearl pension scheme trustees which increased contributions by £46 million in 2013.

Debt interest of £147 million (2012: £115 million) increased following the re-terming of the Impala loan facility and also reflects increased costs associated with the Group's interest rate swap arrangements.

CASH GENERATION
CONTINUED

NON-RECURRING CASH OUTFLOWS

Non-recurring cash outflows reflect investment in the Group's transformation programmes.

DEBT REPAYMENTS AND SHAREHOLDER DIVIDEND

Debt repayments of £696 million in the period comprise a £450 million voluntary debt prepayment, £120 million of mandatory and target repayments; an additional £100 million prepayment in respect of the Impala loan facility; a £25 million[1] mandatory repayment and a £1 million voluntary prepayment in respect of the Pearl loan facility.

The shareholder dividend of £120 million comprises the payment of the 2012 final and 2013 interim dividend.

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

TARGET CASH FLOWS

The cumulative cash flow target for 2011 to 2016 was £3.5 billion, against which £2.3 billion had been achieved by 31 December 2013. The Group is targeting a new operating companies' cash generation target from 1 January 2014 to 31 December 2019 of £2.8 billion to coincide with the final maturity of the Impala loan facility in June 2019. This has been set taking into account the proceeds expected to be received from the divestment of Ignis.

Sources of cash flows	1 January 2014 to 31 December 2019 £bn
Future cash flows:	
Emergence of surplus[2]	**1.1**
Release of capital[2]	**1.3**
Recurring cash receipts generated by Phoenix Life	**2.4**
Other[3]	**0.4**
Operating companies' cash generation target	**2.8**

2 Includes cash flows from management actions.

3 Includes cash flows in relation to Ignis.

£500 million to £550 million of these targeted cash flows are expected to be generated in 2014 in addition to the proceeds expected from the divestment of Ignis.

The above targets have 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 January 2014 to 31 December 2019 £bn
Base case 6-year target	**2.8**
20% fall in equity markets	**2.7**
15% fall in property values	**2.7**
75bps increase in nominal yields[4]	**2.8**
75bps decrease in nominal yields[4]	**2.8**
Credit spreads widening with no change in expected defaults[5]	**2.6**

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

5 11-15 year term: AAA – 44bps, AA – 93bps, A – 111bps, BBB – 187bps.

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

GROUP MCEV

GROUP MCEV

£2,378m

GROUP MCEV OPERATING EARNINGS[6]

The Group has generated MCEV operating earnings after tax of £350 million (2012: £307 million).

MCEV operating earnings	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Life MCEV operating earnings[7]	**401**	360
Management services operating profit	**32**	28
Ignis Asset Management operating profit	**49**	43
Group costs	**(27)**	(25)
Group MCEV operating earnings before tax	**455**	406
Tax on operating earnings	**(105)**	(99)
Group MCEV operating earnings after tax	**350**	307

6 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 Asset Management and management services businesses are included in the Group MCEV at the value of IFRS net assets. The Group MCEV does not include the future earnings from their businesses.

7 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 £401 million (2012: £360 million) are therefore calculated as £308 million operating earnings (2012: £272 million) grossed up for tax at 23.25% (2012: 24.5%).

LIFE MCEV OPERATING EARNINGS AFTER TAX

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

Life MCEV operating earnings after tax	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Expected existing business contribution	**125**	184
New business value	**18**	20
Non-economic experience variances and assumption changes:		
Experience variances	**79**	13
Assumption changes	**3**	(37)
Other operating variances	**83**	92
Total non-economic experience variances and assumption changes	**165**	68
Life MCEV operating earnings after tax	**308**	272

EXPECTED EXISTING BUSINESS CONTRIBUTION

The Group uses long-term investment returns in calculating the expected existing business contribution. The expected contribution in 2013 of £125 million after tax is £59 million lower than in 2012, primarily due to a decrease in the long-term risk-free rate, narrowing corporate bond spreads and the impacts of equity hedging strategies. The long-term risk-free rate is based on the opening position at 1 January 2013.

NEW BUSINESS VALUE

New business profits generated from vesting annuities without guarantees during 2013 were £18 million after tax (2012: £20 million). Even for those customers who do not have guarantees, we believe the lifelong certainty of income provided by an annuity will mean these products should continue to provide an attractive retirement option for some policyholders, despite the recent Budget proposals.

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.

GROUP MCEV CONTINUED

As at 31 December 2013, the Group MCEV included £191 million in respect of these policies (2012: £177 million). We believe the attractive rates provided by our policies with guarantees, which are typically around twice the standard rate (for example, a 65 year old male could receive an 11.1% annuity), should continue to be valuable for policyholders.

The new business margin is 6% after tax (2012: 5%) and represents the ratio of the net of tax new business value to the amounts received as new single premiums.

NON-ECONOMIC EXPERIENCE VARIANCES AND ASSUMPTION CHANGES

Non-economic experience variances and assumption changes increased MCEV by £165 million after tax (2012: £68 million). The main drivers of the increase are other operating variances of £83 million (2012: £92 million), reflecting the benefits of modelling improvements made in the period, and experience variances of £79 million (2012: £13 million) principally reflecting favourable longevity experience during the year and benefits from data cleansing projects.

The increase is further enhanced by positive assumption changes of £3 million (2012: negative £37 million). The 2012 result was adversely impacted by a reduction in assumed surrender rates in funds with valuable policyholder guarantees.

MANAGEMENT SERVICES AND IGNIS ASSET MANAGEMENT OPERATING PROFIT

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

On 25 March 2014, the Group and Standard Life Investments signed a disposal agreement under which Standard Life Investments agreed to acquire the entire share capital of Ignis Asset Management. Details of the disposal agreement and the impact on the MCEV can be found in note 1 to the MCEV supplementary information.

GROUP COSTS

Group costs were £27 million before tax in the period (2012: £25 million).

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 2013 £m	Year ended 31 December 2012 £m
Group MCEV operating earnings after tax	**350**	307
Economic variances on life business	**138**	24
Economic variances on non-life business	**(48)**	(6)
Other non-operating variances on life business	**(35)**	39
Non-recurring items on non-life business	**(61)**	(39)
Finance costs attributable to owners	**(140)**	(123)
Tax on non-operating earnings	**(42)**	–
Group MCEV earnings after tax	**162**	202

ECONOMIC VARIANCES ON LIFE BUSINESS

Positive economic variances on life business of £138 million (2012: positive £24 million) reflect the positive impacts of narrowing corporate bond spreads, improved equity and property returns and a reduced cost of capital due to improved life company solvency. These have been partly offset by the negative impact of the difference between actual short-term rates and the long-term investment return assumption on which operating earnings is based and the increased market value of the PLL subordinated debt held as a liability in the MCEV.

ECONOMIC VARIANCES ON NON-LIFE BUSINESS

Economic variances on non-life business are negative £48 million (2012: negative £6 million), reflecting the increased market value of the Tier 1 bonds which has decreased MCEV earnings by £84 million before tax (2012: decrease of £28 million before tax). This has been partly offset by fair value gains on interest rate swaps and excess returns on financial assets held by the holding companies.

OTHER NON-OPERATING VARIANCES ON LIFE BUSINESS

Other non-operating variances on life business of negative £35 million (2012: positive £39 million) include regulatory change and systems transformation costs incurred by the life companies, together with the impact of certain tax items including the impact of corporate tax rate reductions.

NON-RECURRING ITEMS ON NON-LIFE BUSINESS

Non-recurring items on non-life business reduced embedded value by £61 million before tax (2012: £39 million reduction). Non-recurring items include 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 (2012: £39 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 2013 £m	Year ended 31 December 2012 £m
Debt finance costs[1]	**114**	97
Tier 1 bond coupon	**26**	26
Finance costs attributable to owners	**140**	123

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

Debt finance costs have increased by £17 million mainly reflecting higher interest costs following the re-terming of the Impala loan facility and increased costs associated with the Group's interest rate swap arrangements.

GROUP MCEV

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

Movement in Group MCEV	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Group MCEV at 1 January	**2,122**	2,118
Group MCEV earnings after tax	**162**	202
Other comprehensive income:		
Remeasurements and contributions on defined benefit pension schemes (net of tax)	**(16)**	(131)
Capital and dividend flows	**110**	(67)
Group MCEV at 31 December	**2,378**	2,122

Remeasurement gains of £2 million (2012: £108 million loss) were recognised in the year in relation to the Pearl Group Staff Pension Scheme. The comparative figure reflected the movement to an IAS 19 deficit as at 31 December 2012. Pension contributions of £18 million (net of tax) were recognised in the year in respect of the PGL Pension Scheme (2012: £23 million).

Capital and dividend flows in 2013 mainly comprise ordinary share capital issued of £232 million (£250 million proceeds from the equity raise net of associated fees and commissions of £18 million) less external dividend payments of £120 million.

GROUP IFRS OPERATING PROFIT

IFRS OPERATING PROFIT

£439m

GROUP IFRS OPERATING PROFIT

The Group has generated an IFRS operating profit of £439 million (2012 restated: £429 million).

Group operating profit	Year ended 31 December 2013 £m	Year ended 31 December 2012 restated £m
Phoenix Life	**414**	399
Ignis Asset Management	**49**	43
Group costs	**(24)**	(13)
Operating profit before tax[1]	**439**	429

1 Operating profit is presented before adjusting items. See table on page 36 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 2013 £m	Year ended 31 December 2012 £m
With-profit	**106**	75
With-profit where internal capital support provided	**20**	(14)
Non-profit and unit-linked	**243**	288
Longer term return on owners' funds	**13**	22
Management services	**32**	28
Phoenix Life operating profit before tax	**414**	399

The owners' one-ninth share of the policyholder with-profit bonus of £106 million increased by £31 million on the 2012 result, primarily due to higher bonus rates, increased estate distribution and a £10 million benefit from shareholder transfers that were underestimated in prior years.

The with-profit funds where internal capital support has been provided generated an operating profit of £20 million (2012: £14 million operating loss). The increase reflects the positive impact of the adoption of revised assumptions for longevity improvement. The 2012 comparative result was adversely impacted by the reduction in the assumed surrender rates in funds with valuable policyholder guarantees (£28 million).

The operating profit on non-profit and unit-linked funds was £243 million (2012: £288 million). The reduction compared to the prior year reflects lower expected returns of £128 million (2012: £136 million), reduced new business from vesting annuities of £36 million (2012: £40 million) and lower positive impacts of £88 million from modelling improvements, policy harmonisations and data cleansing projects (2012: £117 million).

Of the £243 million of non-profit and unit-linked IFRS operating profits, £36 million was generated on annuity new business. Of this, £16 million related to policies without guaranteed annuity rates. Even for those customers who do not have guarantees, we believe the lifelong certainty of income provided by an annuity will mean these products should continue to provide an attractive retirement option for some policyholders, despite the recent Budget proposals.

The longer term return on owners' funds of £13 million (2012: £22 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 and lower expected investment return assumptions for 2013 for non-cash assets (calculated by reference to the market yields on risk-free fixed interest assets at the start of the year). The investment policy for managing these assets remains prudent.

The operating profit for management services of £32 million (2012: £28 million) comprises income from the life companies in accordance with the respective management service agreements less fees payable in relation to the outsourcing of services and other operating costs. The increase compared to the prior year reflects lower outsource partner costs and the positive impacts of cost management activities.

IGNIS ASSET MANAGEMENT

Ignis Asset Management operating profit	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Life fund revenue	**102**	108
Third party revenue	**45**	32
Other income	**3**	3
Total revenues	**150**	143
Staff costs	**(68)**	(64)
Other operating expenses	**(33)**	(36)
Total expenses	**(101)**	(100)
Ignis Asset Management operating profit before tax	**49**	43

Ignis revenue of £150 million (2012: £143 million) has increased primarily due to higher third party revenues and strong investment performance offsetting a reduction in life fund revenues partly due to run-off. Despite continued investment in the business, expenses are relatively flat overall. Increased staff costs are offset by cost management activities reducing other operating expenses.

On 25 March 2014, the Group and Standard Life Investments signed a disposal agreement under which Standard Life Investments agreed to acquire the entire issued share capital of Ignis Asset Management. Details of the disposal agreement and the IFRS impact can be found in note 45 to the IFRS consolidated financial statements.

GROUP COSTS

Group costs were £24 million (2012 restated: £13 million) in the period. The increase in Group costs compared to the prior year relates primarily to defined benefit pension scheme costs which have increased compared to the prior year. This is driven by higher net interest cost, reflecting the opening net defined benefit liability position compared to the opening net defined benefit asset position in the prior year. This was partly offset by miscellaneous income.

GROUP IFRS OPERATING PROFIT CONTINUED

The Group has adopted the revised accounting standard, IAS 19 *Employee benefits* for the first time in 2013 (see note 3 to the IFRS consolidated financial statements) and has consequently changed its basis for determining income or expense relating to the defined benefit pension schemes. This change in accounting policy has been applied retrospectively, resulting in a £19 million reduction in Group costs for 2012.

IFRS RESULT AFTER TAX

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 restated £m
Operating profit before adjusting items	**439**	429
Investment return variances and economic assumption changes on long-term business	**64**	1
Variance on owners' funds	**(31)**	(13)
Amortisation of acquired in-force business and other intangibles	**(118)**	(127)
Non-recurring items	**(11)**	130
Profit before finance costs attributable to owners	**343**	420
Finance costs attributable to owners	**(126)**	(111)
Profit before the tax attributable to owners	**217**	309
Tax (charge)/credit attributable to owners	**(10)**	115
Profit for the period attributable to owners	**207**	424

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

The Phoenix Life business recognised positive investment return variances and economic assumption changes of £64 million in 2013 (2012: £1 million positive). The positive impacts of narrowing credit spreads, increasing yields and improved property returns have been partly offset by losses on equity hedging positions held within the shareholder funds.

VARIANCE ON OWNERS' FUNDS

The negative variance on owners' funds of £31 million for 2013 is driven by fair value losses on credit default swaps, futures and interest rate swaps held within the shareholder funds of the life companies as part of the Group's hedging strategies. This has been partly offset by a fair value gain on interest rate swaps held by the holding companies. All interest rate swaps held by the shareholder funds and holding companies 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 Pearl businesses.

The acquired in-force business is being amortised in line with the run-off of the acquired businesses. Amortisation of acquired in-force business during the period totalled £99 million (2012: £109 million). Amortisation of other intangible assets totalled £19 million in the period (2012: £18 million).

NON-RECURRING ITEMS

Non-recurring items include a gain of £42 million on completion of the legal transfer of annuity liabilities to Guardian offset by arrangement and structuring fees of £21 million associated with the extinguishment and re-terming of the Impala loan facility, regulatory change and systems transformation costs of £25 million (2012: £34 million) and a loss from a pension liability management exercise of £9 million (2012: £2 million). Net other items of positive £2 million (2012: £11 million) include a gain on the reinsurance arrangement with Guardian as a result of data review procedures offset by corporate project costs. The 2012 result was impacted by a £177 million gain recognised upon entering into the reinsurance agreement with Guardian.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Debt finance costs[1]	**114**	97
Other finance costs	**12**	14
Finance costs attributable to owners	**126**	111

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

Debt finance costs have increased by £15 million mainly reflecting higher interest charges following the re-terming of the Impala loan facility and the impact of increased costs associated with the Group's interest rate swap arrangements. All interest rate swaps were closed out during 2013.

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

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

The Group tax charge for the period attributable to owners is £10 million (2012 restated: £115 million credit) based on a profit before tax attributable to owners of £217 million (2012 restated: £309 million). The difference between the actual charge of £10 million and the expected charge (based on the UK corporation tax rate of 23.25%) of £50 million is primarily driven by a £36 million benefit as a result of the reductions in future UK corporate tax rates, and £38 million due to certain profits being non-taxable or taxed at a rate less than 23.35%. This has been partly offset by adverse adjustments to the shareholder tax charge in respect of prior years and the impact of certain disallowable expenses.

GROUP ASSETS UNDER MANAGEMENT

GROUP ASSETS UNDER MANAGEMENT

£68.6bn

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

Group assets under management	Life and holding companies £bn	Third party £bn	Total Group assets under management £bn	Stock lending collateral[1] £bn	Total including stock lending collateral £bn
As at 1 January 2013	**56.7**	**11.9**	**68.6**	**9.3**	**77.9**
Inflows	–	2.8	2.8	–	2.8
Outflows	(5.8)[2]	(0.9)	(6.7)	(2.5)	(9.2)
Market movements	2.7	0.3	3.0	–	3.0
Other	–	0.9[3]	0.9	–	0.9
As at 31 December 2013	**53.6**	**15.0**	**68.6**	**6.8**	**75.4**

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

2 Outflows include approximately £4.4 billion of net life company run-off and approximately £1.4 billion return of derivative collateral, recouponing and other items.

3 Other net inflows of £0.9 billion consists of inflows and outflows relating to assets recaptured from Guardian following the Group's 2012 annuity transfer transaction of £1.6 billion and £0.4 billion respectively, together with outflows from Group Pension Schemes of £0.3 billion.

Net inflows from third parties were £1.9 billion in the period (31 December 2012: £1.6 billion) with strong performance in the Absolute Return Government Bond Fund ('ARGBF') contributing net inflows of £1.4 billion.

In 2012 life company assets of £5.1 billion were transferred to Guardian under the terms of the Group's annuity transfer transaction of which Ignis was selected to manage £4.7 billion and Castle Hill Asset Management LLC £0.4 billion. As at 31 December 2012, £3.1 billion of these assets had been recaptured and a further £1.6 billion were transferred to Ignis during 2013.

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

Ignis assets under management	**Life and holding companies £bn**	**Third party £bn**	**Total Ignis assets under management £bn**	**Stock lending collateral £bn**	**Total including stock lending collateral £bn**
Direct asset management	44.1	15.0	59.1	6.8	65.9
Oversight and advice	6.8	–	6.8	–	6.8
As at 31 December 2013	**50.9**	**15.0**	**65.9**	**6.8**	**72.7**

Ignis assets under management	Life and holding companies £bn	Third party £bn	Total Ignis assets under management £bn	Stock lending collateral £bn	Total including stock lending collateral £bn
Direct asset management[4]	47.1	11.9	59.0	9.3	68.3
Oversight and advice	7.0	–	7.0	–	7.0
As at 31 December 2012	**54.1**	**11.9**	**66.0**	**9.3**	**75.3**

4 The agreement with Castle Hill Asset Management LLC was renegotiated in October 2012 following which £1.1 billion of life companies' assets are no longer managed by Ignis.

CAPITAL MANAGEMENT

IGD SURPLUS (ESTIMATED)

£1.2bn

PLHL ICA SURPLUS (ESTIMATED)

£1.2bn

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 whilst 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, within the restrictions in the Group's two main credit agreements.

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.

For further details of the regulatory capital requirements of the individual life companies
See note 38 of the IFRS consolidated financial statements

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 PLHL. The estimated IGD surplus at 31 December 2013 is £1.2 billion (2012: £1.4 billion). The components of the estimated IGD calculation are shown below:

	31 December 2013 £bn	31 December 2012 £bn
Group capital resources ('GCR')	**5.4**	5.6
Group capital resource requirement ('GCRR')	**(4.2)**	(4.2)
IGD surplus (estimated)	**1.2**	1.4

The key drivers of the change in solvency position in the year are:

- dividend payments, debt financing and repayments of £0.6 billion, including a £0.2 billion reduction in relation to the re-terming of the Impala loan facility, net of the proceeds from the equity raise; partly offset by
- capital generation items of £0.4 billion, which included the benefits of the completion of the legal transfer of the annuity liabilities to Guardian.

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 at 31 December 2013 was £0.5 billion (2012: £0.6 billion).

Had the divestment of Ignis (which is hoped to complete by the end of the second quarter of 2014) and the £250 million debt prepayment expected to be made in respect of the Impala facility following completion of the divestment taken place before 31 December 2013, the impact on the Group's IGD surplus and headroom over Group capital policy would have been broadly neutral.

PHOENIX LIFE PILLAR 1 CAPITAL

The largest components of the GCR and GCRR of the Group's IGD position are the Pillar 1 capital resources[2] and the individual capital resource requirements of Phoenix Life respectively. Both are adjusted to take account of specific rules pertaining to the IGD calculation. For example, due to the Group's current structure, certain of the Group's subsidiaries are only included in the IGD calculation at 75% of their regulatory value.

At 31 December 2013, the aggregate unadjusted Pillar 1 Phoenix Life capital resources are £6.3 billion (2012: £6.5 billion) and aggregate unadjusted Pillar 1 Phoenix Life capital requirements are £5.0 billion (2012: £5.1 billion). Due to the closed fund nature of the Phoenix Life business and the Pillar 1 rules for with-profits funds, the surplus estate of the Phoenix Life with-profit funds is treated as a policyholder liability. This has the effect of increasing capital requirements. If the funds were open to new business, it is estimated that the Phoenix Life Pillar 1 capital requirement would reduce to £3.2 billion (2012: £3.5 billion) and the capital coverage for Phoenix Life would be 197% (2012: 186%).

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. PLHL's ICA position at 31 December 2013 is set out below:

	31 December 2013 £bn	31 December 2012 £bn
Capital resources[1]	**1.5**	1.3
Capital resource requirements[2]	**(0.3)**	(0.3)
PLHL ICA surplus (estimated)	**1.2**	1.0

1 Capital resources includes the surplus over capital policy in the life companies, a prudent assessment of the present value of future profits of Ignis Asset Management and the net assets of the holding companies less pension scheme obligations calculated on 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.

The key drivers of the increase in the PLHL surplus include:

- capital generation items and positive market movements of £0.9 billion. This includes the benefits of the completion of the legal transfer of the annuity liabilities, partly offset by
- dividend payments, debt financing and repayments net of the proceeds from the equity raise of £0.7 billion.

For further details of the Pillar 1 capital resources of the individual life companies
See note 38 of the IFRS consolidated financial statements

CAPITAL MANAGEMENT
CONTINUED

Had the divestment of Ignis (which is hoped to complete by the end of the second quarter of 2014) and the £250 million debt prepayment expected to be made in respect of the Impala facility following completion of the divestment taken place before 31 December 2013, the PLHL ICA surplus and headroom over Group capital policy would have decreased by £0.1 billion.

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 2013	1.2	1.2
Following a 20% fall in equity markets	1.2	1.1
Following a 15% fall in property values	1.2	1.1
Following a 75bps increase in nominal yields[1]	1.2	1.2
Following a 75bps decrease in nominal yields[1]	1.2	1.1
Following credit spread widening[2]	1.3	1.1

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

2 11-15 year term: AAA – 44bps, AA – 93bps, A – 111bps, BBB – 187bps.

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.

SOLVENCY II

2013 has seen significant developments towards the implementation of the new Solvency II regime with the finalisation of more guidance and the increased certainty around the Solvency II go live date. The Group's Solvency II delivery programme is designed to ensure that the Group complies with all requirements of the new regime.

The Group is working with the PRA during the pre-application period of our Internal Model and expects to make an application to the PRA to apply certain of the transitional measures once additional guidance is obtained from EIOPA and the PRA on their practical application. Provided the Solvency II Regulations operate as expected, it is the Group's view that the solvency position of the Group will be largely unchanged and that Group solvency will continue to be measured at PLHL under the new regime.

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 bonds) and shareholder borrowings.

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

The Group monitors the level of debt on its balance sheet by reference to the gearing ratio calculated as gross shareholder debt[3] as a percentage of gross MCEV[4]. The gearing ratio as at 31 December 2013 under the Group's methodology is 44% (2012: 55%).

Gross shareholder debt and shareholder debt (including hybrid debt) included in MCEV at 31 December 2013:

	31 December 2013 £m	31 December 2012 £m
Bank debt		
– Pearl facility	**327**	351
– Pearl loan notes	**76**	75
– Impala facility	**1,182**	1,852
Royal London PIK notes and facility	**121**	116
PLL subordinated debt	**151**	143
Tier 1 bonds at 50% of IFRS carrying value (see note 20 to the IFRS consolidated financial statements)	**204**	204
Gross shareholder debt	**2,061**	2,741
Adjustments to include the following items at fair value:		
PLL subordinated debt	**54**	30
Tier 1 bonds (100% of fair value)	**146**	116
Shareholder debt (including hybrid debt) included in MCEV	**2,261**	2,887

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

The Group has two main credit agreements (the Pearl and Impala facilities), which have separate security arrangements.

In February 2013, following a successful equity raising of £250 million, the Group made a £450 million voluntary repayment against the Impala facility and entered into an agreement with the lenders to extend the repayment terms to 2019 (the facility was previously scheduled to mature in the period from 2014 to 2016).

In addition £120 million of mandatory and target repayments and an additional £100 million prepayment were made in respect of the Impala loan facility during the year.

The Pearl facility remains unchanged and will mature in 2016. A £25 million[5] mandatory repayment and a £1 million voluntary prepayment were made in the year.

The Group's target is to reduce the gearing ratio to 40% by the end of 2016.

Had the divestment of Ignis (which is hoped to complete by the end of the second quarter of 2014) and the £250 million debt prepayment expected to be made in respect of the Impala facility following completion of the divestment taken place before 31 December 2013, gearing would have reduced to 39%.

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 39 of the IFRS consolidated financial statements.

3 Gross shareholder debt 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 bonds given the hybrid nature of that instrument.

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

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

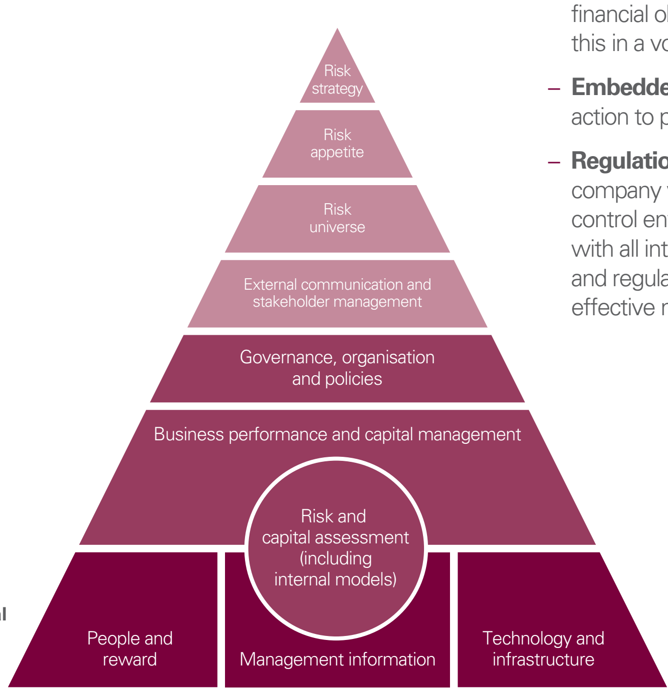
RISK MANAGEMENT

The Board seeks to ensure that the Group identifies and manages all risks either to create additional value for its stakeholders or to mitigate any potentially adverse effects.

THE GROUP'S RISK MANAGEMENT FRAMEWORK

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 components of the framework are shown below. The outputs of the RMF provide assurance that risks are being appropriately identified and managed and that an independent assessment of management's approach to risk management is being performed.

During the year, the Group has continued to strengthen and embed the components of the RMF to ensure that they are aligned with evolving regulatory requirements including Solvency II. This has included, for example, an increasing focus on independent reviews by the Group Risk function of the risk profile of the Group.



For a summary of the principal risks and uncertainties facing the Group
Turn to page 49

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.

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. Breaches of appetite are corrected through management actions where appropriate.

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 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 3 levels of risk universe categories. The highest risk universe category is Level 1 and these risks are set out below:

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

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

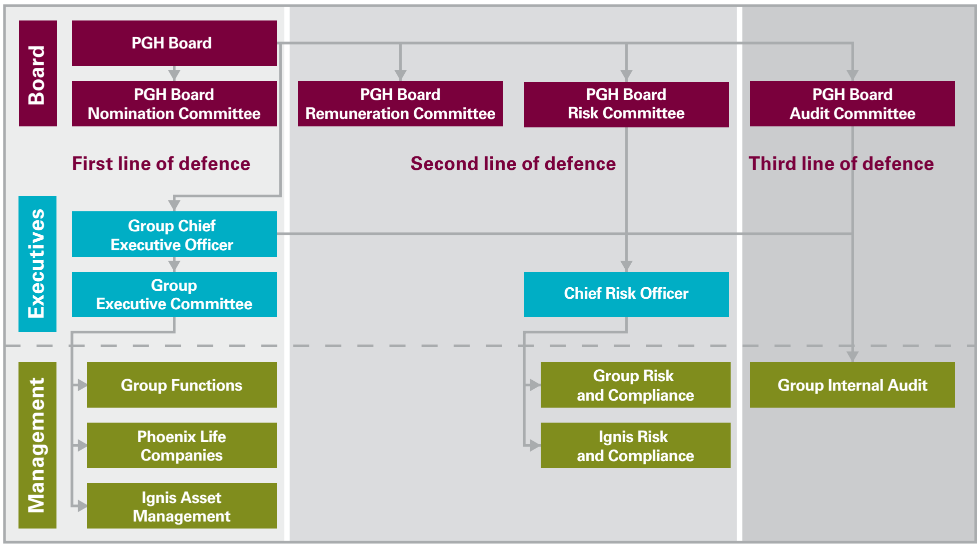
Overall responsibility for approving, establishing and embedding the RMF rests with the Board. The Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated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

For further details of the Level 1 risk categories
Turn to note 39 of the IFRS consolidated financial statements

RISK MANAGEMENT
CONTINUED

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.

GOVERNANCE FRAMEWORK



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 six times during the year.

THIRD LINE: INDEPENDENT ASSURANCE

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

For further details of the Board Audit and Risk Committees and their principal activities
Turn to pages 62 and 66

RISK 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.

RISK 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 that each business unit must adhere to and reports compliance against through the operation of local processes/procedures. 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 with the policy 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 MANAGEMENT CONTINUED

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 and executive 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 2013, to assess how well the RMF is embedding across the Group and how this has impacted our employees, Group Risk commissioned the first Risk Culture survey. This annual survey will enable us to assess and measure our Risk Culture over time.

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. During 2013 the Group rolled out a new Risk Management information system to further support the embedding of the RMF.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's top 5 principal risks and uncertainties are detailed below together with their potential impact and mitigating actions which are in place. 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 39 of the IFRS consolidated financial statements.

Risk	Impact	Mitigation
In times of severe market turbulence, the Group may not have sufficient liquid assets to meet its payment obligations or may suffer a loss in value.	The Group has ongoing obligations to meet payments to creditors which are funded by the release of capital and profits from its business units. The emerging cash flows of the Group may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's embedded value, financial condition and prospects.	The Group undertakes regular monitoring activities in relation to market risk exposure, including the monitoring of asset mixes, cash flow forecasting and stress and scenario testing. In response to this, the Group may implement de-risking strategies to mitigate against unwanted customer and shareholder outcomes. The Group also maintains cash buffers in its holding companies to reduce reliance on emerging cash flows.
Significant counterparty failure.	Assets held to meet obligations to policyholders include debt securities. Phoenix Life is exposed to deterioration in the actual or perceived creditworthiness or default of issuers of relevant debt securities or from trading counterparties failing to meet all or part of their obligations; such as reinsurers failing to meet obligations assumed under reinsurance arrangements or derivative counterparties or stock-borrowers failing to pay as required. An increase in credit spreads on such securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could have a material adverse impact on the Group's financial condition.	The Group regularly monitors its counterparty exposure and has specific limits relating to counterparty credit rating. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised and guaranteed.
Adverse changes in experience versus actuarial assumptions.	The Group has liabilities under annuities and other policies that are sensitive to future longevity and mortality rates. Changes in assumptions may lead to changes in the assessed level of liabilities to policyholders. The amount of additional capital required to meet those liabilities could have a material adverse impact on the Group's embedded value, results, financial condition and prospects.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any variances in assumptions.
The Group could be adversely affected if it is unable to repay or refinance its debt when it falls due.	The Group may not be able to refinance the outstanding amount on its debt facilities as they mature on terms which are as favourable as the existing terms or it may be unable to refinance these obligations at all.	The Group is targeting a gearing ratio of 40% by the end of 2016. At this lower level of gearing, a wider range of funding opportunities such as increased access to the debt capital markets should become available to the Group.

RISK MANAGEMENT
CONTINUED

Risk	Impact	Mitigation
The potential limitation on distributions from the Group's PRA / FCA regulated companies and changes to legislation or regulation in relation to Group capital may impair the ability of the Group to service its existing debt commitments.	The Group has ongoing principal repayment and interest obligations to its lending syndicates. In the event that transfers from the Group's operating subsidiaries are limited by any law, regulatory action or change in established approach or interpretation, this may impair the Group's ability to service these obligations. In addition, if the legislation or regulation to which the Group is subject to in relation to Group capital is amended, interpreted or applied in a new way, the Group may have to retain more capital. The implementation of directives and other legislative changes such as Solvency II could have this effect and may therefore have a material adverse effect on the Group's results, financial condition and cash flows.	The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory change and their impact on our operations and lobbies where appropriate. Controls are in place to reduce the likelihood that the Group's regulated entities are not able to distribute proceeds in line with the Group's target projections.

CORPORATE RESPONSIBILITY

2013 was all about making a difference, whether that be to the lives of our staff, the communities in which we are based, or the charities we have partnered with during the year.

The full Corporate Responsibility Report
is available on the Group's website at www.thephoenixgroup.com/CRreport2013

The following report provides highlights of the Group's 2013 Corporate Responsibility programme.

Corporate Responsibility ('CR') continues to be embedded within Phoenix Group. Since joining Business in the Community ('BITC') in 2010, the CR programme has grown in maturity, is better aligned to the business model and has increased commitment from staff. BITC is a business-led charity offering advice and support to its members, promoting the importance of future sustainability. The Group welcomes the tangible and intangible benefits that CR brings for all stakeholders – staff, suppliers, customers, shareholders, investors and the communities in which we are based.

GOVERNANCE

Staff actively embrace CR activity across the Group and are made aware of the CR Policy and accompanying Code of Business Ethics and Ethical Conduct annually. The CR programme is sponsored at the highest level by the Group Chief Executive Officer, and two members from the Executive Committee sit on the Group's CR working group. This forum meets quarterly to determine CR strategy and oversee the agreed programme of activity. The Executive Committee as a whole is updated on progress against the CR plan on a bi-annual basis.

HIGHLIGHTS

The aim for 2013 was to raise awareness of the Group's CR programme and to achieve greater staff involvement in company-led initiatives. CR within the Group is reported in four areas which are similar categories to those championed by BITC. The highlights of our CR activities in 2013 are included below.

ENVIRONMENT – REDUCING OUR IMPACT ON THE ENVIRONMENT

As a responsible business, the Group has launched several initiatives to lessen or counteract the impact it is making on the environment.

Phoenix Life and the Group offices have moved to a single IT provider, bringing a number of environmental benefits including eco-friendly printing equipment, enhanced remote working capability and 'free' telephone conferencing. All paper within the Group is sourced from sustainable, managed forests and payslips are now online. Customer annual statement mailings were also reduced by an estimated 5.2 million sheets of paper during the year.

At the end of 2013, the Group commenced a one-year partnership with the Heart of England Forest Limited, whose aim is to 'conserve and establish trees for the benefit of the public' and 1,000 oak trees were planted in an area close to the Phoenix Life site in Wythall.

Following a review of waste management suppliers, two of the Group's sites now generate no waste to landfill and a third site review is planned for 2014.

This section includes mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013.

CORPORATE RESPONSIBILITY
CONTINUED

GREENHOUSE GAS EMISSIONS[1]

Global GHG emissions data for period: 1 January 2013 to 31 December 2013

Emissions from:	Tonnes of CO_2e
Combustion of fuel and operation of facilities	3,365
Electricity, heat, steam and cooling purchased for own use	11,600
Total Carbon Footprint (Tonnes of CO_2e)	14,965

Phoenix Group's chosen intensity measurement:

Emissions reported above normalised to per m^2	0.03 tonnes CO_2e/m^2
Emissions reported above normalised to kgs per m^2	34.83 kgs CO_2e/m^2
Emissions from Group corporate offices normalised per FTE	4.96 tonnes of CO_2e/FTE

1 We have used the main requirements of ISO14064 Part 1 and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) for our methodology, using energy consumption data from our owned and/or occupied properties. We have established that Fluorinated Gas and owned transport emissions are non material. We have used emissions factors from the UK Government conversion factors for company reporting.

As this is the first year of mandatory greenhouse gas emissions reporting, there is no comparison year.

WORKPLACE – ATTRACTING, DEVELOPING AND RETAINING TALENTED STAFF

The Group continues to be independently recognised as one of 'Britain's Top Employers'. Companies awarded this accreditation are considered amongst the best companies to work for in the UK.

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.

As part of the workplace agenda promoting health and lifestyle services available to staff, the Group launched a 'Health and Wellbeing' initiative, encouraging staff to get the most out of life, both in and out of the workplace.

CR questions were included for the first time in the Group's employee engagement survey and the Group achieved an overall employee engagement index score of 72% (2012: 73%).

Key employee metrics and diversity statistics are summarised below.

	2013	2012
Total workforce	**1,192**	1,229
Male	**679**	688
Female	**513**	541
Senior Managers	**18**	19
Male	**15**	15
Female	**3**	4
Board of Directors	**11**	14
Male	**10**	13
Female	**1**	1
Black, Asian or Ethnic Minority	**213**	197

COMMUNITY – MAKING A DIFFERENCE

The Group is conscious of the contribution it makes to the communities in which it operates and obligations to the broader society. In 2013, the Group was actively engaged in supporting communities local to each site, with the aim of being a responsible member of that community.

Through fundraising efforts, approximately £200,000 was raised for local charities. Of this, £125,000 was donated to Birmingham St Mary's Hospice and £48,000 to Trinity Hospice, the two Group charities chosen in 2013. An additional £15,000 was donated through the staff matched donation schemes for causes supported by employees outside of work and £10,000 was donated to a number of community based projects.

Staff donated over 800 hours to staff volunteering programmes in our local communities through activities ranging from team events to ad-hoc one-to-one mentoring sessions.

The Group achieved an increased score of 12 points in BITC's Responsible Business Check-Up, a gap analysis and benchmarking tool designed to help companies develop a strategic approach to their CR programme.

EXTERNAL STAKEHOLDERS – OUR RELATIONSHIPS WITH THIRD PARTIES

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

The Group won the 'Head of AML and Fraud Prevention of the Year' award at the Thompson Reuter Compliance Awards in 2013 in recognition for the work done to protect policyholders from the negative impacts of pension liberation. In addition, the Group won the National Outsourcing Association 'Academic Achievement' award and was runner-up in the 'Relationship Management Team of the Year' award, recognising its commitment to continued development and management of strategic relationships.

The Group has continued to embed the UK Government's Prompt Payment Code to ensure suppliers are paid on time, something that is taken very seriously.

Ignis was accepted as a signatory to the United Nations Principles of Responsible Investment ('UNPRI'). UNPRI is an international network of investors which works towards incorporating the principles of responsible investment decision making processes, including environmental and social governance, into investment analysis, policies and practices.

CONCLUSION

The Group remains committed to its CR programme and in 2014 will be driving through initiatives that continue to benefit both the Group and its many stakeholders. In addition, work will continue with staff to ensure the CR programme continues to be embedded into daily working life and that the benefits of CR best practice are continually shared.

WYTHALL GREEN, BIRMINGHAM
Phoenix Life operates out of Wythall Green.
For further details, turn to page 14.

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 also is 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.

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.

RENÉ-PIERRE AZRIA
NON-EXECUTIVE DIRECTOR

René-Pierre Azria is Chief Executive Officer of Tegris Advisors LLC, a US private advisory firm specialising in strategic financial analysis and mergers and acquisitions. Prior to founding Tegris, Mr Azria 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 Board Investment and Board Risk Committees.

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. 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. Mr McConville qualified as a Chartered Accountant whilst at Coopers and Lybrand.

ALASTAIR BARBOUR
NON-EXECUTIVE DIRECTOR

Alastair Barbour has over 30 years' audit experience from 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 Chairman 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.

DAVID BARNES
NON-EXECUTIVE DIRECTOR

David Barnes joined the RBS Group (then Williams & Glyn's Bank) in 1973 and remained there in various roles until his early retirement in February 2009. His roles included Relationship Banker in the then newly established Corporate Division, Managing Director of the Financial Institutions Relationship Management team and member and subsequently Chairman of RBS's credit committee. From 2005 he was responsible for all lending to financial institutions and for capital management for RBS's Financial Institutions Group. Mr Barnes was appointed to the Board of Directors of the Company on 2 September 2009. He is a member of the Board Audit and Board Remuneration Committees.

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. Mr Cross Brown served on the Board of Directors of the former Pearl Group Limited from May 2005 until September 2009. He was appointed to the Board of Directors of the Company on 24 September 2009. He is Chairman of the Board Investment Committee and a member of the Board Nomination and Board Risk Committees.

ISABEL HUDSON
NON-EXECUTIVE DIRECTOR

Isabel Hudson is a former Executive Director of Prudential Assurance Company Limited. She was also Chief Financial Officer at Eureko BV. Ms Hudson is Non-Executive Chair of the National House Building Council and a Non-Executive Director of QBE Insurance and The Pensions Regulator. 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, Board Risk and Board Remuneration Committees.

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 was Chairman of Citibank International plc and co-head of the Global Financial Institutions Client Group at Citigroup. Mr Cormack served on the Board of Directors of the former Pearl Group Limited from May 2005 to September 2009. Mr Cormack is Chairman of the Board Remuneration Committee and a member of the Board Nomination Committee.

MANJIT DALE
NON-EXECUTIVE DIRECTOR

Manjit Dale is a founding partner of TDR Capital, a private equity firm established in 2002. TDR Capital manages over €2.6 billion of assets on behalf of a variety of institutional pension funds, university endowments and private individuals. Prior to founding TDR Capital, Mr Dale was Managing Partner at Deutsche Bank Capital Partners Europe. He has served on the boards of Pizza Express and Center Parcs and currently also serves on the board of Algeco Scotsman. Mr Dale has over 20 years' experience in private equity, finance and consulting gained with Bankers Trust, 3i plc, NM Rothschild and Andersen Consulting. Mr Dale graduated from Cambridge University with an honours degree in Economics. He served on the Board of the former Pearl Group Limited from December 2004 to September 2009. Mr Dale was appointed to the Board of Directors of the Company on 2 September 2009 and is a member of the Board Investment Committee.

DAVID WOODS
NON-EXECUTIVE DIRECTOR

David Woods is a Fellow of the Institute of Actuaries and a Non-Executive Director of Standard Life UK Smaller Companies Trust plc, Murray Income Trust plc and The Moller Centre for Continuing Education. 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 a trustee of the Scottish Provident Pension Fund. Between 1988 and 2002, he was Group Managing Director of the Scottish Provident Group and was Non-Executive Chairman of Royal Liver Assurance from 2003 to 2011. He was appointed to the Board of Directors of the Company on 18 February 2010 and is Chairman of the Board Risk 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.

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

- Develops and delivers the Group's financial business plan in line with strategy
- Ensures that the Group's finances and capital are managed and controlled
- Develops and delivers the Group's Debt Capital Strategy and other treasury matters
- Ensures the Group has effective processes in place to ensure reporting obligations are 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.

MIKE MERRICK
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 and the risk universe and strategy.

CHRIS SAMUEL
CHIEF EXECUTIVE OFFICER, IGNIS ASSET MANAGEMENT

- Leads development of Ignis' business strategy and plans
- Delivers, over the longer term, Ignis' vision of becoming a leading asset management business committed to performance excellence and innovation
- Ensures Ignis achieves its key goals of meeting or exceeding investment performance expectations, providing clients with creative solutions to changing product needs and maintaining a well controlled and efficient operating platform
- Ensures Ignis' chosen foundations of innovative people, a partnership culture, suitable processes and technology and stability are in place to support these plans.

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.

ALAN JONES
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.

JANE MACLEOD
GENERAL COUNSEL

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

WAYNE SNOW
CHIEF RISK OFFICER

- Leads the Group's risk management function, embracing changes in best practice and regulation
- 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.

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. As Chairman, I am committed to leading the Board in achieving high standards of corporate governance."

Phoenix Group Holdings is a relatively new company which achieved a Premium Listing on the London Stock Exchange in July 2010 and inclusion in the FTSE 250 later that year. Our governance standards since the listing have evolved and improved.

Set out below are the results of our governance code compliance and our shareholder meetings since 2010.

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.

SHAREHOLDER MEETINGS

- 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.

Governance has to evolve as the environment in which we operate changes. We will therefore continually monitor and aim to improve our governance processes and the quality and type of information provided to the Board. We will regularly assess the composition of the Board to ensure it remains balanced and appropriate for our business and to recruit directors to the Board informed by our Board evaluations and the reviews by the Nomination Committee on the structure, skills and composition of the Board.

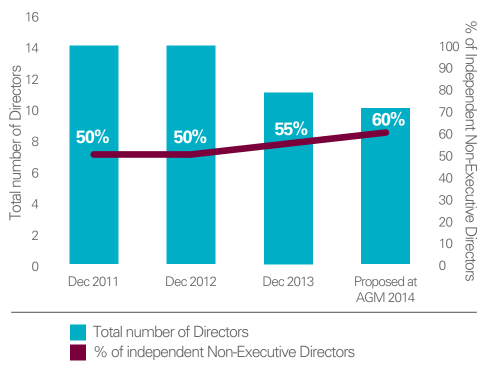
When I became Chairman in October 2012, a key target was to reduce the number of directors as the Board was considered too large to function at its best level. The optimum number of directors suggested by both the 2011 and 2012 Board evaluations was considered to be around ten. I am pleased that the number of directors has reduced from 14 to 11 since the end of 2012 and that this has been achieved whilst increasing the proportion of independent directors.

I have referred to the Board changes which occurred in 2013, and that proposed for the AGM in April 2014, in my opening statement to the Annual Report and Accounts.

Given the formerly large size of the Board, it would, until now, have been inappropriate to appoint additional directors except in the case of a specific requirement (for example, Alastair Barbour's appointment as Audit Committee Chairman) or to fill a skills gap. However, now that the Board is at a more manageable size, we are taking immediate action to recruit an additional female director to add better balance to the Board.

The chart below shows how the membership of the Board has evolved. The UK Corporate Governance Code states that independent Non-Executive Directors should comprise at least half the Board, excluding the Chairman.

BOARD MEMBERSHIP



The following report provides further details of the work undertaken by our Board and its committees and shows how the Company has in 2013 achieved full compliance with the provisions set down in the UK Corporate Governance Code.

CORPORATE GOVERNANCE REPORT
CONTINUED

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 2013 with the provisions set down in the Code. These include the new provisions of the September 2012 version of the Code which apply to the Company for the 2013 reporting period. Several of the new provisions are addressed in the Audit Committee Report section of this report.

THE BOARD
The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Finance Director and eight other Non-Executive Directors, six of whom are independent. Biographical details of all directors are provided on pages 56 to 57. The Board considers that the following directors are independent as they do not have any interest or business or other relationship which could, or could be perceived to, interfere materially with their ability to act in the best interests of the Company: Alastair Barbour, David Barnes, Ian Cormack, Tom Cross Brown, Isabel Hudson and David Woods. The Board has considered the criteria proposed by the Code in assessing the independence of the directors.

The remuneration of the directors is shown in the Remuneration report on pages 68 to 89. 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 (other than Manjit Dale who is standing down from the Board, as reported in the Chairman's opening statement to the Annual Report and Accounts) will submit themselves for election or re-election at the Company's AGM on 30 April 2014.

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 became Chairman of the Board of Directors of the Company on 1 October 2012. 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 56.

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 December 2013, and for leading the process for appointment of a new Chairman.

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 2013. The process involved completion by directors of a questionnaire covering various aspects of Board and director effectiveness followed by individual meetings between the Chairman and each director, concluding in a Board report which was discussed by the Board in December 2013. The following areas were covered:

- Board structure and composition including diversity
- Board dynamics and relationship
- Board performance
- Board processes
- Board Committees
- Individual director performance which will be used in revising the training programme for directors
- Director induction and training.

An action list, with senior executive accountability, has been established to address the recommendations from the evaluation.

The output from the Board and individual director reviews informed the review of the Board composition and structure undertaken by the Board Nomination Committee in January 2014, leading to the Board's recommendations to shareholders regarding re-election of directors at the 2014 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 seven times during 2013 and is scheduled to meet eight times in 2014 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 2013.

Attendance by each of the directors at Board meetings and at committee meetings for committees of which they were a member during 2013 is detailed below:

	Board meetings		Audit Committee		Nomination Committee		Remuneration Committee		Risk Committee		Investment Committee	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Chairman												
Howard Davies	7	7	–	–	4	4	–	–	–	–	–	–
Executive Directors												
Clive Bannister	7	6	–	–	–	–	–	–	–	–	–	–
Jim McConville	7	7	–	–	–	–	–	–	–	–	–	–
Non-Executive Directors												
Ian Ashken[1]	3	3	–	–	–	–	–	–	–	–	–	–
René Pierre Azria	7	6	–	–	–	–	–	–	6	5	3	3
Alastair Barbour[2]	2	2	2	2	–	–	–	–	–	–	–	–
David Barnes	7	7	7	7	–	–	7	7	–	–	–	–
Charles Clarke[3]	3	3	3	3	–	–	–	–	–	–	1	1
Ian Cormack	7	7	–	–	4	4	7	7	–	–	–	–
Tom Cross Brown	7	6	–	–	4	4	–	–	6	5	3	3
Manjit Dale	7	3	–	–	–	–	–	–	–	–	3	0
Isabel Hudson	7	7	4	4	–	–	7	7	6	6	–	–
Alastair Lyons[4]	5	5	5	5	–	–	–	–	–	–		
Hugh Osmond[5]	4	4	–	–	–	–	–	–	4	3	3	1
David Woods	7	7	–	–	–	–	–	–	6	6	–	–

1 Ian Ashken resigned from the Board on 2 May 2013.

2 Alastair Barbour was appointed to the Board on 1 October 2013.

3 Charles Clarke resigned from the Board on 2 May 2013.

4 Alastair Lyons resigned from the Board on 30 September 2013.

5 Hugh Osmond resigned from the Board on 21 August 2013.

CORPORATE GOVERNANCE REPORT CONTINUED

BOARD COMMITTEES

The Board has delegated specific responsibilities to five 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 (who succeeded Alastair Lyons as Chairman from 1 October 2013 following Mr Lyons' resignation from the Board)
DAVID BARNES
ISABEL HUDSON

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 2013. Its meetings are attended by the Chairman of the Risk Committee, the Group Finance Director, the Group Financial Controller, 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.

PRINCIPAL ACTIVITIES OF THE AUDIT COMMITTEE DURING 2013

External reporting and controls

- Reviewed the Company's 2012 Annual Report and Accounts, 2013 Interim Financial Statements and 2013 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 issues in relation to these financial statements as summarised in the table opposite
- 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.

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
- Considered and agreed the timing for a tendering exercise for the external audit engagement – 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
- Considered, and agreed to aim for full compliance with, the proposals of the code of the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in Financial Services'.

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.

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

Significant issues in relation to the 2013 IFRS financial statements and MCEV supplementary information	How these issues were addressed
– Setting of actuarial assumptions and reviewing the robustness of actuarial modelling processes	– Management presented papers to the Phoenix Life Audit Committee detailing recommendations for the actuarial assumptions and processes to be used for the interim and year-end reporting periods with justification and benchmarking as appropriate. These assumptions and processes 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 being approved. – 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. – 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, processes and actuarial models. – Pension assumptions for use in the IAS 19 Employee Benefits valuations were reviewed by the Audit Committee prior to the finalisation of the valuation reports.
– Tax provisioning	– The Audit Committee undertook a review of tax provisioning and exposure, encompassing comprehensive reports from the Group Tax Director presented to two Audit Committee meetings, receiving detail of how both Phoenix Life and Group tax planning risks were adequately addressed in the assessment of capital requirements and in the financial statements. – The review considered tax risks, how these were rated and reserved and their potential impact on capital, cash, MCEV, gearing and the IFRS financial statements.
– Valuation of 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.
– Assessment of whether the Annual Report and Accounts are fair, balanced and understandable	– In November 2013 the Audit Committee approved the processes to be established that would provide comfort to the Board that the 2013 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable. An update was provided at the January 2014 Audit Committee meeting which allowed the Committee to refine the process. – During the March 2014 Audit Committee meeting, the Committee considered an analysis of the processes and conclusions in support of management's conclusion that the Annual Report and Accounts are fair, balanced and understandable. – The Audit Committee as part of their review of the Annual Report and Accounts and production processes satisfied themselves that this conclusion could be supported and reported their views to the Board.

CORPORATE GOVERNANCE REPORT CONTINUED

SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS CONTINUED

Significant issues in relation to the 2013 IFRS financial statements and MCEV supplementary information	How these issues were addressed
– Going concern analysis	– A comprehensive going concern assessment was undertaken by the Audit Committee for the 2013 year end and 2013 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. – The Audit Committee reviewed the recommendations advocated by Lord Sharman's report, 'Going Concern and Liquidity Risks: Lessons For Companies and Auditors' which was issued in January 2013 and improved the Group's disclosures in this regard.

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 communication; and interaction of auditors with 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 ('EY') as the Group's auditors which was approved by shareholders at the AGM on 2 May 2013.

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. There are currently two group audit partners for Phoenix Group, the UK partner George Reid and Dutch partner Jasper Kolsters, who commenced his role in 2013. The UK partner will be replaced by Ed Jervis after the 2013 audit in accordance with the Group's rotation principles. The Audit Committee has decided to undertake an audit tender during the next Group UK audit partner's tenure, so that the tender will be undertaken between five and ten years after the current 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

HOWARD DAVIES, Chairman
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 four times during 2013.

The standard process used by the Nomination Committee for Board appointments involves the use of an external search consultancy to source candidates external to the Group (and may 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 Committee members and other directors and the sourcing of references before the Committee recommends the appointments to the Board. This process was used for the appointment of the Audit Committee Chairman in 2013. The search consultancy used in 2013 for director appointments was The Zygos Partnership which has no other connection with the Company.

NOMINATION COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2013

- Delivered recommendations to the Board in connection with the appointment of the Chairman of the Audit Committee (new director) and the appointment of the Senior Independent Director (existing director). The outcome was the appointment of Alastair Barbour (as Audit Committee Chairman from 1 October 2013) and of Ian Cormack (as Senior Independent Director, also from 1 October 2013)
- 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 Board Evaluation Report, endorsing the recommendation from the November 2012 Board Evaluation Review that the size of the Board should be reduced from 14 to around 12 in the near term and to around ten in the medium term
- Reviewed the time spent by directors in fulfilling their duties, noting that it was 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 the proposed new Non-Executive Director appointments to the Ignis Asset Management Board, prior to their 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." As stated in the Chairman's introduction to this Report, the Board is now a size considered appropriate by recent Board evaluations, and the recruitment of an additional female director is a priority. The Board and Nomination Committee will continue to consider Board balance and diversity, in particular during the annual Board evaluation review.

REMUNERATION COMMITTEE

IAN CORMACK, Chairman
DAVID BARNES
ISABEL HUDSON

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 2013.

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 2013 are provided in the Remuneration report on pages 68 to 89.

FIT Remuneration Consultants provided advice to the Remuneration Committee in 2013 and is independent of the Company.

CORPORATE GOVERNANCE REPORT CONTINUED

RISK COMMITTEE

DAVID WOODS, Chairman
RENÉ PIERRE AZRIA
TOM CROSS BROWN
ISABEL HUDSON

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 six times in 2013.

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 44 to 50.

RISK COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2013

- Recommended to the Board the Group's risk appetite
- Recommended to the Board the Group's overall risk management strategy
- Recommended to the Board the Group's principal risk policies
- Approved the Group Risk function's 2013 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, Liquidity 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.

INVESTMENT COMMITTEE

TOM CROSS BROWN, Chairman
RENÉ PIERRE AZRIA
MANJIT DALE

The Investment Committee was formed in May 2011 in response to a recommendation from the Board evaluation undertaken at the end of 2010 to provide greater focus on investment strategy and performance. The Investment Committee reviews investment performance and strategic asset allocation across the Group. It met three times in 2013. In its December 2013 Board and Committee evaluation, the Board concluded that the Investment Committee continued to undertake an important role through its contribution to the oversight of the Group's overall investment position.

INVESTMENT COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2013

- Reviewed regular reports from Ignis Asset Management on investment performance
- Reviewed the performance of the Financial Management Group executive team whose main purpose is to focus on asset and liability management
- Reviewed proposals to enhance strategic asset allocation for the Group's annuity portfolio
- Reviewed the Group's macro hedging position.

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 2013. 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.

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 2013 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 2014 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 2013.

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 53.

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 92.

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 25 March 2014. 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 2013, 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.

REMUNERATION REPORT
CHAIRMAN'S INTRODUCTION

DEAR SHAREHOLDER

On behalf of the Board, I am pleased to welcome you to our Directors' Remuneration Report for the year ended 31 December 2013.

This year's Remuneration Report is the first to be prepared under the new UK regime for the reporting of executive pay and to comply with the requirements of the new regime, we now have two sections of the report that cover the following matters:

– Part A: the Company's Remuneration Policy for each of the components of Directors' remuneration (the Directors' Remuneration Policy Report)
– Part B: how the policy has been implemented in the year ended 31 December 2013 (the Annual Implementation Report).

Performance of the Company in 2013

2013 was again a successful year at Phoenix Group and this is fully detailed in the Group Chief Executive Officer's report at the beginning of this Annual Report and Accounts. Particular performance highlights included:

– The successful capital raising and debt re-terming in February 2013
– Operating companies' cash generation of £817 million, above the top end of our target range
– Incremental MCEV of £502 million achieved since 2011, exceeding our target a year ahead of plan
– Gearing reduced by 11 percentage points to 44% during 2013.

Consistent with this strong performance, the Committee approved a corporate factor under the Annual Incentive Plan ('AIP') of 75% of maximum. Consistent with previous years, the Remuneration Committee looked at the indicative out-turn suggested by the formula and applied judgement to moderate the result to reduce the factor to this level having regard to progress against stretching internal strategic goals set by the Board which, while demonstrative of good progress, warranted some level of moderation.

In addition, due to our cash generation and MCEV performance over the three year period from January 2011 to December 2013, our 2011 LTIP awards have met their performance conditions at 100%, and these awards are anticipated to vest in full in April 2014. For our Group Chief Executive Officer, Clive Bannister, this will be the first occasion since his appointment in 2011 that he has participated in an LTIP vesting, and this accordingly impacts his reported remuneration for 2013. While that level of vesting is considered appropriate, the Group Chief Executive Officer decided to voluntarily waive any entitlement under the LTIP in excess of two-thirds of the shares which would otherwise vest.

Remuneration Policy for 2014

2013 was the first occasion since the 2010 Premium Listing that the Company has undertaken a broader remuneration review. The Remuneration Committee's conclusion from this review was that the Company's Remuneration Policy remains appropriate and correctly aligned to the Group's overall business strategy. There were, however, certain specific changes to remuneration practice which were recommended by the review and accordingly the following changes were made to the detail of our policy:

– The first increases to senior executive base salaries since 2010 were proposed, with increases taking effect from 1 January 2014.
– The salary level for the Group Finance Director, James McConville, was increased by 10%. Consistent with best practice guidelines, James McConville was originally recruited in 2012 on a lower starting salary than his predecessor, and the increase now being made reflects that he is fully established in the role. Clive Bannister declined a proposed salary increase in 2014 and in consequence, his salary remains unchanged from his initial appointment in 2011.
– AIP maximum potential remains appropriate at 150% of base salary for 2014, with a similar balanced scorecard of annual performance metrics applying as for 2013. There are no planned material changes to the operation of the AIP for 2014 although, consistent with past practice, the precise weightings under the balanced scorecard are set each year having regard to strategic priorities. The Remuneration Committee has also introduced a more formal process for considering its existing discretion to moderate outcomes in light of its broader assessment of both corporate and individual performance.

- The structure of the LTIP and the use of embedded value, cash generation and relative total shareholder return ('TSR') performance measures remains appropriate and in line with the Group's strategy. As has been publicised, for much of 2013 the Group was exploring potential M&A activity. This prevented the 2013 annual LTIP awards from being made in the usual period following the announcement of annual results and they were eventually granted on 15 November 2013 (being the first open period after the normal grant window).
- More broadly, the Remuneration Committee continues to consider the appropriate comparators for the Group's pay structure to be both relevant insurance companies and companies in the FTSE 31-100 as a whole (being a pan-sector group which is closely aligned with pay across the insurance sector more generally). The broader pan-sector group is seen as providing an appropriate comparison to Phoenix Group in terms of the total enterprise value of the entity (taking account of Phoenix Group's shareholder debt) and the complexity of the business. Additionally, when the Group recruits senior executives it is generally in competition with this category of company. However, as explained in our Directors' Remuneration Policy, the Remuneration Committee does not follow such data strictly but instead uses it as a reference point to inform its judgement.

The Remuneration Committee remains comfortable that with these changes, its Remuneration Policy continues to be appropriate, and that the policy has the correct balance between retention and incentivisation for executives which will be in shareholders' interests in the longer term.

In considering the Company's remuneration arrangements, the Remuneration Committee has been mindful of developments in both regulatory and best practice. At the time of writing, we still await guidance on the form and timing of any insurance specific remuneration guidelines which may form part of the Solvency II implementation process, although the Remuneration Committee continues to apply the more general Financial Conduct Authority ('FCA') Remuneration Code as appropriate as being reflective of best practice.

Shareholder approval

At the Annual General Meeting ('AGM') on 30 April 2014, shareholders will be invited to approve the Directors' Remuneration Policy and to approve the 2013 Remuneration Report (excluding the Directors' Remuneration Policy). Although Phoenix is not a UK registered quoted company and thus is not subject to the technical consequences of non-compliance with the new UK regime for reporting and approval by shareholders of executive pay, the Company will maintain its current policy of adopting a high level of voluntary compliance with all aspects of the regulations applicable to pay for UK companies.

The Remuneration Committee considers that the current arrangements are appropriate to the Group and its commercial situation and reflect UK best practice, and I hope that we can rely on the support of our shareholders for the resolutions on remuneration matters which will be proposed at the 2014 AGM.

Yours sincerely

IAN CORMACK
Remuneration Committee Chairman
25 March 2014

REMUNERATION REPORT CONTINUED

INTRODUCTION

We have presented this Remuneration Report to reflect the recent changes in reporting requirements on remuneration matters for companies with a UK governance profile, particularly the UK's new Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'new UK regulations'). The Company intends to comply with the reporting obligations within the new 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 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 2014 AGM we will be holding two votes on remuneration matters:

1) a vote on the Directors' Remuneration Policy as set out in Part A of this Remuneration Report; and

2) a vote on the Remuneration Report (excluding the Directors' Remuneration Policy).

As Phoenix is a non-UK incorporated company both votes will technically be advisory.

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

PART A: DIRECTORS' REMUNERATION POLICY REPORT

The Directors' Remuneration Policy as set out in this section of the Remuneration Report will take effect for all payments made to Directors from the date of the AGM on 30 April 2014.

GENERAL POLICY

The Remuneration Policy for Executive Directors is summarised in the table opposite along with the position of the Chairman's and the Non-Executive Directors' fees:

EXECUTIVE REMUNERATION PACKAGES ARE STRUCTURED SO THAT THEY:*

- are aligned to the Group's strategy;
- are aligned with the interests of shareholders, with a significant proportion being performance-related to areas which impact value;
- are competitive but not excessive, in relation to the UK life insurance and asset management markets;
- do not promote unacceptable behaviours or encourage unacceptable risk taking. In particular, the Remuneration Committee designed the annual incentive targets for senior executives with a clear bias towards the delivery of corporate targets for senior executives, recognising the criticality of good team behaviours and co-operation for an insurance business as part of an effective approach to risk management; and
- take into account Group-wide pay and employment conditions. The Remuneration Committee reviews the average Group-wide base salary increase and annual incentive costs and is responsible for all-employee share arrangements.

*This section does not technically form part of the Directors' Remuneration Policy and is for information only.

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
Implementation of policy in 2013 and 2014*	– 2013 base salaries were as follows: Group Chief Executive Officer – £700,000; Group Finance Director – £400,000 – No base salary increases were implemented for Executive Directors in January 2011, January 2012 or January 2013 – The Group Chief Executive Officer declined any salary increase for 2014. The Group Finance Director's salary is £440,000 from 1 January 2014 (10% increase)		
Benefits 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. 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
Implementation of policy in 2013 and 2014*	– The benefits received by Executive Directors included a car allowance, private medical insurance, life assurance and voluntary benefits through our flexible benefits scheme. No changes were made to this element of remuneration within the year – In addition, following his appointment in 2012, James McConville has received the benefit of relocation assistance. The taxable element of this assistance (paid until May 2013) was £10,000 and is included in the single figure of remuneration in the Annual Implementation Report		

*This section does not technically form part of the Directors' Remuneration Policy but does form part of the Annual Implementation Report. It is included here for information only.

REMUNERATION REPORT CONTINUED

REMUNERATION POLICY TABLE CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures
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
Implementation of policy in 2013 and 2014*	– No changes were made to the pension arrangements in 2013 and no changes to these pension arrangements are anticipated for 2014 – Both the Group Chief Executive Officer and Group Finance Director received contributions equivalent to 20% of base salary. The Group Chief Executive Officer receives a payment into the GPP up to the HMRC annual contributions limit and the balance of his annual contribution was received as a cash supplement (less a deduction for employers' national insurance contributions). The Group Finance Director's contribution was received as a cash supplement (less a deduction for employers' national insurance contributions). Such supplements are not taken into account as base salary for calculation of AIP, LTIP or other benefits		

*This section does not technically form part of the Directors' Remuneration Policy but does form part of the Annual Implementation Report. It is included here for information only.

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 overriding 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

REMUNERATION REPORT CONTINUED

REMUNERATION POLICY TABLE CONTINUED

Implementation of policy in 2013 and 2014*

2013 AIP

- The AIP maximum potential level for 2013 was 150% of base salary with target levels at 50% of this maximum level (75% of base salary)
- The annual incentive out-turn for the 2013 financial year in respect of the Group Chief Executive Officer and Group Finance Director was £725,000, and £435,000 (being 69% and 72.5% of the maximum respectively)
- The outcomes against the performance measures for 2013 are summarised within the AIP Outcomes table following the Single Figure of Remuneration table

2014 AIP

- The AIP maximum potential level for 2014 and the potential proportion payable at target is unchanged from that for 2013 as stated above
- Proposed performance measures for 2014 AIP are summarised in the notes to the Policy Table

*This section does not technically form part of the Directors' Remuneration Policy but does form part of the Annual Implementation Report. It is included here for information only.

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 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	– 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 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

Implementation of policy in 2013 and 2014*

2013 LTIP

- Annual awards were made to the Group Chief Executive Officer and Group Finance Director at the level of 200% of base salary per annum
- As referred to in the Remuneration Committee Chairman's introduction, due to regulatory constraints the Company was not able to make these awards at the normal time (April 2013) and accordingly made them in November 2013
- The performance conditions for the 2013 LTIP awards are described on page 86

2014 LTIP

- LTIP awards in 2014 will be made at comparable levels to those for 2013
- Performance measures and performance targets for LTIP awards in 2014 will be set on a similar basis to those for 2013, and more details are given below this table

*This section does not technically form part of the Directors' Remuneration Policy but does form part of the Annual Implementation Report. It is included here for information only.

Element and purpose	Policy and operation	Maximum	Performance measures
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
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 context of this policy	– 200% of base salary for the Group Chief Executive Officer, 100% of base salary for all other Executive Directors	– N/A

REMUNERATION REPORT CONTINUED

REMUNERATION POLICY TABLE CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures
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
Implementation of policy in 2013 and 2014*	– In 2013, fee levels remained at £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 SID; and/or (ii) £10,000 payable where an individual also chairs the Audit, Investment, 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 remained at £100,000 in accordance with their agreements on joining the Board		

*This section does not technically form part of the Directors' Remuneration Policy but does form part of the Annual Implementation Report. It is included here for information only.

NOTES TO THE REMUNERATION POLICY TABLE

1. AIP performance measures

For 2014, AIP performance measures are based on the achievement of strategic and individual objectives for 30% of the annual incentive opportunity and, for the other 70% of annual incentive opportunity, performance measures are based on financial and non-financial performance indicators as follows:

Performance metric	% of 70% of incentive potential based on KPIs
Operating companies' cash generation	25%
Group MCEV	25%
Expense management	15%
Group MCEV operating earnings after tax	15%
Customer satisfaction	10%
Employee engagement	10%

These weightings between financial and strategic and individual measures for the 2014 AIP, and within the matrix of applicable financial measures, represent a minor change from the equivalent weightings applied for the 2013 AIP. The proportion dependent on strategic and individual objectives has been increased for 2014 in light of the priority given to key strategic targets. The weighting for subsequent years will be kept under review.

Given the closed fund nature of the Company, and that the Board periodically looks at other transactions to enhance value for shareholders, whilst the performance measures for AIP are disclosed, the detailed targets for the performance measures are considered commercially sensitive. Such information is likely to remain so and accordingly will not be disclosed subsequently.

The Remuneration Committee selected these performance measures for the 2014 AIP performance period to focus participants on achieving appropriate financial performance results as well as other relevant operational measures.

2. Performance conditions for LTIP awards in 2014

LTIP awards to be made to the Executive Directors in 2014 have performance measures of which 40% is based on MCEV growth, 40% is based on cumulative cash generation and the remaining 20% is subject to TSR performance against the constituents of the FTSE 250 (excluding investment trusts), with each target measured over the three financial years commencing 1 January 2014. The performance targets for each of the performance measures will be determined by the Remuneration Committee shortly before the awards are made.

The Remuneration Committee selected these performance measures for 2014 as they are directly linked to the objectives set out in the Group's strategy, there is a direct link with shareholder value and there is a clear line of sight for participants between performance and reward. The balance between the performance measures is appropriate and consistent with the types of balanced scorecards seen elsewhere in the sector.

REMUNERATION REPORT CONTINUED

NOTES TO THE REMUNERATION POLICY TABLE CONTINUED

3. Differences between the policy on remuneration for directors from the policy on remuneration of other employees

Where Phoenix's pay policy for Directors differs to its pay policies for groups of employees, this reflects the appropriate market rate position for the relevant roles. However, elements of consistency of treatment are promoted through a single Group-wide (other than for Ignis) annual incentive arrangement (although quantum and the mix of performance metrics vary according to seniority), Group-wide share plans and flexible benefits programmes.

4. Stating maximum amounts for the Remuneration Policy

The new UK regulations and related investor guidance encourages companies to disclose a cap within which each element of remuneration policy will operate. Although the Company is not subject to these provisions, the Remuneration Committee has decided to set and disclose limits in this report on a voluntary basis. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

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 LTIP 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.

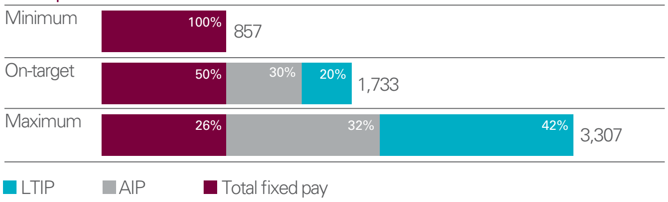
POTENTIAL REWARDS UNDER VARIOUS SCENARIOS

The potential total rewards available to the Executive Directors, ignoring any change in share price and roll-up of dividends are:

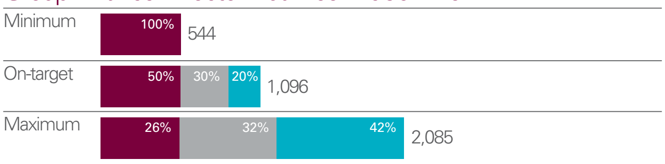
Total remuneration opportunity

£000

Group Chief Executive Officer – Clive Bannister



Group Finance Director – James McConville



The above 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 which ceased in May 2013

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 £000	Benefits £000	Pension £000	Total fixed £000
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' SERVICE CONTRACTS

Executive Directors

Executive Director service contracts, which do not contain expiry dates, provide that compensation provisions for termination without notice will only extend to 12 months of salary, certain fixed benefits and pension (which may be payable in instalments and subject to mitigation). By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Remuneration Committee believes the contracts to be consistent with best practice. The Remuneration Committee also has discretion to mitigate further by paying on a phased basis with unpaid instalments ceasing after the initial period of six months if the executive finds alternative employment. Contracts do not contain change of control provisions.

Name	Date of contract	Notice period from either party (months)
Clive Bannister	7 February 2011	12
James McConville	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.

REMUNERATION REPORT CONTINUED

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.

Non-Executive Directors' contracts

The Non-Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Appointment is for a fixed term of three years, terminable by one month's notice on either side. Non-Executive Directors are not eligible to participate in incentive arrangements or receive pension provision or other benefits such as private medical insurance and life insurance.

Name	Date of letter of appointment	Appointment end date	Unexpired term (months)
René-Pierre Azria	2 September 2009	30 April 2014	1
Alastair Barbour	11 September 2013	1 October 2016	30
David Barnes	2 September 2009	30 April 2014	1
Ian Cormack	2 September 2009	30 April 2014	1
Tom Cross Brown	24 September 2009	30 April 2014	1
Manjit Dale	2 September 2009	30 April 2014	1
Howard Davies	19 October 2012	1 October 2015	18
Isabel Hudson	11 December 2009	30 April 2014	1
David Woods	21 December 2009	30 April 2014	1

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

As explained in the general policy section of the Directors' Remuneration Policy, the Remuneration Committee takes into account Group-wide pay and employment conditions. The Remuneration Committee reviews the average Group-wide base salary increase and annual incentive costs and is responsible for all discretionary and all-employee share arrangements.

Consistent with normal practice, the Remuneration Committee did not consult with employees in preparing the Directors' Remuneration Policy.

CONSIDERATION OF SHAREHOLDERS' VIEWS

Each year the Remuneration Committee takes into account the approval levels of remuneration related matters at our AGM in determining that the current Directors' Remuneration Policy remains appropriate for the Company.

The Remuneration Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. The Remuneration Committee consulted with its largest shareholders before awarding the 2014 base salary increase to the Group Finance Director.

PART B: ANNUAL IMPLEMENTATION REPORT

Information contained in Part A which is expressly stated as forming part of the Annual Implementation Report is incorporated in this Part B by reference.

UNAUDITED INFORMATION
REMUNERATION COMMITTEE

The Group established the Remuneration Committee in 2010. The terms of reference of the Remuneration Committee are available at www.thephoenixgroup.com. During 2013 the Remuneration Committee's main responsibilities were to:

- Undertake a full review of all aspects of executive remuneration practice for the Group, including a review of base salaries.
- Agree the impact of the February 2013 placing and open offer on our share plans (with no adjustments being made to performance conditions).
- Review the design of and agree targets for any performance-related incentive schemes operated by the Group and approve the total annual payments made under such schemes.
- Re-consider the 2013 LTIP grants given the delay in their being awarded.
- Review the design of all share-based plans for approval by the Board and shareholders, including the overall level of awards in any year, the individual award levels for Executive Directors and senior executives and performance targets.
- Receive reports on remuneration practices within Ignis Asset Management, applying similar overall principles as applied to the rest of the Group but relating these to an appropriate peer group of asset managers.
- Review the Company's remuneration policy for Executive Directors in the context of the revised disclosure obligations of the new UK regulations.

The table below shows the independent Non-Executive Directors who served on the Remuneration Committee during 2013 and their date of appointment:

Member	From	To
Ian Cormack (Remuneration Committee Chairman)	18 February 2010	To date
David Barnes	18 February 2010	To date
Isabel Hudson	18 February 2010	To date

The Remuneration Committee meets at least twice a year but more frequently if required. During 2013, seven Remuneration Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 61.

As reported last year, during 2013, certain responsibilities of the Remuneration Committee were assumed by the Remuneration Committee of the Board of Phoenix Life Holdings Limited, the highest EEA insurance holding company within the Group. In particular, that Remuneration Committee oversees remuneration relating to UK based employees other than the Chairman and the Executive Directors. The current members of the two committees are the same and this does not impact the governance of remuneration from any external perspective, but it does simplify the oversight of remuneration matters affecting UK based employees. Meetings of this committee are in addition to the seven meetings of the Phoenix Group Holdings Remuneration Committee referred to above.

None of the Remuneration 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 Remuneration Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

REMUNERATION REPORT CONTINUED

Advice

The Remuneration 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 consultants) and adheres to its code of conduct. This appointment was made by the Remuneration Committee following consideration of FIT's experience in this sector. FIT provided no other services to the Group and accordingly the Remuneration Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2013 were £221,574 (plus VAT). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

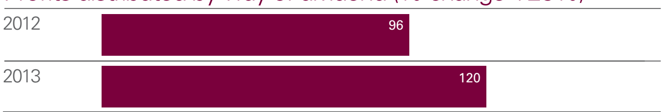
The Remuneration Committee also consulted with the Group Chief Executive Officer, Group HR Director – Alan Jones and General Counsel – Jane MacLeod who attended, by invitation, various Remuneration Committee meetings during the year although no executive is ever permitted to participate in discussions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

Distribution statement

Relative importance of spend on pay

£m

Profits distributed by way of dividend (% change +25%)[1]



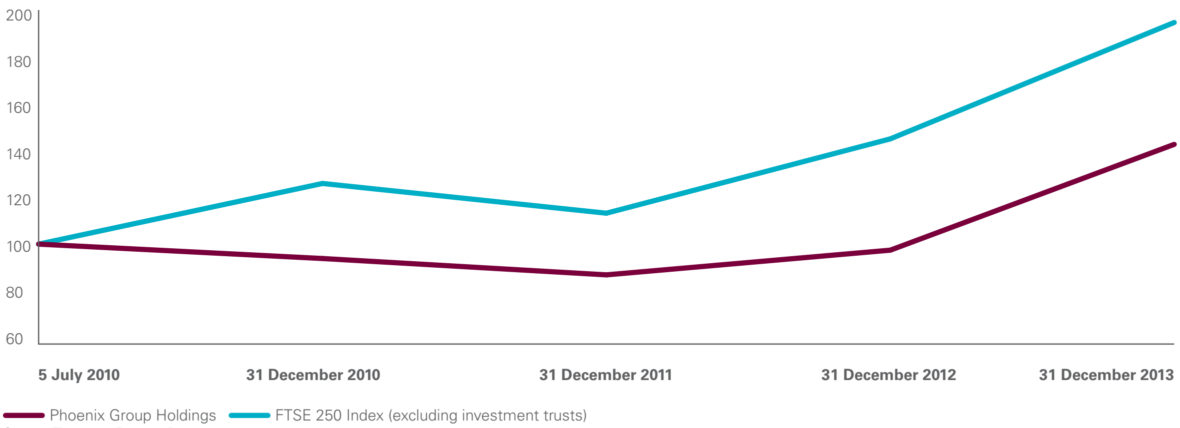
Overall expenditure on pay (% change +10%)[2]

1 Profit distributed by way of dividend has been taken as the dividend paid in respect of the relevant financial year. For 2013 this is the interim dividend paid (£60 million) and the recommended final dividend of 26.7p multiplied by the total share capital issued at the date of the annual report. No share buy-backs were made in either year.

2 Overall expenditure on pay has been taken as the employee costs as set out in note 10 Administrative expenses in the notes to the IFRS consolidated financial statements.

Performance graph and table

The graph below shows the value to 31 December 2013, 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).



Source: Thomson Reuters Datastream

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

		Single figure of total remuneration (£000)	Annual variable element award rates against maximum opportunity	Long-term incentive vesting rates against maximum opportunity
2013	Clive Bannister[1]	2,892	69%	67%[1]
2012	Clive Bannister[2]	1,583	69%	n/a[3]
2011	Clive Bannister	1,333	73%	n/a[3]
	Jonathan Moss[2]	70[4]	n/a	n/a
2010	Jonathan Moss	2,307	88%	100%

1 The long-term incentive vesting rate is shown at 67%. This accounts for all of the differential between the single total figure of remuneration for 2012 (where no long-term awards vested) and that for 2013. In addition, Phoenix's share price rose by 37% over the financial year and this impacts the value for the vesting long-term incentives for the purposes of the single figure. The performance conditions were met as to 100% although the Group Chief Executive Officer has decided to voluntarily waive any entitlement in excess of two-thirds of the shares which would otherwise vest.

2 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.

3 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.

4 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 2012 TO 2013

In accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the percentage change in the prescribed pay elements of the Group Chief Executive Officer (salaries, taxable benefits, and annual incentive outcomes) and the average percentage change for a matched sample of staff representing all staff (other than Ignis employees) who did not receive significant promotions during either year for these elements between the financial years 2012 and 2013 was as follows:

Year-on-year % change	Salary	Taxable benefits	Annual incentive	Total
Group Chief Executive Officer	0.00%	0.33%	(0.01)%	(0.06)%
Staff	3.30%	3.10%	8.60%	4.40%

This group was selected as being representative of the wider workforce (Ignis being excluded as its pay arrangements are separate from Group and Life). Overall, the data shows broadly unchanged levels of pay inflation for the Group Chief Executive Officer compared with this group whereas staff more generally received their increases through a broadly equal split of salary increases and AIP. The median level of salary increase for staff was lower at 2.25%.

Voting outcomes from the 2013 AGM

The table below shows the votes cast to approve the Directors' Remuneration Report, for the year ended 31 December 2012, at the 2013 AGM held on 2 May 2013.

	For		Against		Abstain
	Number	%	Number	%	Number
To approve the Directors' Remuneration Report for the year ended 31 December 2012	146,109,177	99.25%	1,096,716	0.75%	2,298

IMPLEMENTATION REPORT – AUDITED INFORMATION

Single figure table

	Salary/fees		Benefits[1]		Annual incentive		Long-term incentives[2]		Pension		Total	
£'000	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Clive Bannister[2]	**700**	700	**17**	16	**725**	726	**1,319**	–	**131**	140	**2,892**	1,583
James McConville[3]	**400**	203	**26**	22	**435**	237	**3**	–	**70**	36	**934**	498

1 Benefits comprise car allowance, private medical insurance and life assurance and, for James McConville, an allowance of £2,000 per month in respect of relocation assistance was payable until May 2013.

2 Clive Bannister's total single figure of remuneration for 2013 includes the first vesting of long-term incentive awards since his appointment in 2011.

3 James McConville joined the Phoenix Group on 6 June 2012 and was appointed to the Board as a Director on 28 June 2012. 2012 figures only relate to the period from his appointment as a Director to 31 December 2012, except for the AIP which also includes the amount earned in respect of the period 6 June 2012 to 28 June 2012.

Notes:

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

Annual incentive amounts are presented inclusive of any amounts which must be deferred in shares for three years (i.e. one-third of the AIP award). In 2013 and 2012, £241,666 and £241,990 respectively of Clive Bannister's incentive payment is deferred in shares for a period of three years and £145,000 and £79,017 of James McConville's incentive payment is similarly deferred. Details of the performance measures and targets applicable to the annual incentive for 2013 are set out below.

REMUNERATION REPORT CONTINUED

No long-term incentive awards for the current Executive Directors vested during 2012 or 2013 although the new UK regulations require the inclusion of figures for the 2011 LTIP awards due to vest in 2014 in respect of a performance period ending on 31 December 2013. 2011's LTIP awards are expected to vest at 67% due to a combination of full achievement of the applicable MCEV and cumulative cash generation performance measures (see below) and the decision of Clive Bannister to voluntarily waive any vesting of this award in excess of two-thirds of the shares which would otherwise vest. The 2013 long-term incentives value in the above table has been calculated by multiplying this percentage (67%) by the number of shares subject to the original 2011 awards (plus additional shares in respect of estimated accrued dividends in the period until vesting) by the average share price between 1 October 2013 and 31 December 2013 (732.3p). For James McConville, the value of his 2013 long-term incentives is a value in respect of the intrinsic gain on SAYE option grant made in 2013 (£2,769).

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 GPP or received in cash. Pension contributions paid to GPP are disclosed on page 85. Pension contributions paid as cash supplements are reduced for the effect of employers' National Insurance contributions.

The aggregate remuneration of all directors under salary, fees, benefits, cash supplements in lieu of pensions and annual incentive was £3.803 million (2012: £3.226 million).

AIP OUTCOMES FOR 2013

The table below shows the actual out-turn against the annual incentive maximum which follows the AIP terms without discretionary adjustment. For 2013 AIP, KPI performance measures applied to 80% of incentive opportunity, and individual objectives applied to 20% of incentive opportunity.

	Corporate factor		Individual		Total		Maximum
Name	As a % of max KPI element	As a % of salary	As a % of maximum individual element	As a % of salary	As a % of maximum	As a % of salary	As a % of salary
Clive Bannister	75%	90%	45.2%	13.6%	69.0%	103.6%	150%
James McConville	75%	90%	62.5%	18.8%	72.5%	108.8%	150%

Against the individual financial and non-financial metrics, before discretionary adjustment, out-turns were as follows:

Performance metric	% of 80% of incentive potential based on KPIs	% achieved
Operating companies' cash generation	24%	13.5%
Group MCEV	24%	24.0%
Expense management	16%	16.0%
Group MCEV operating earnings after tax	16%	16.0%
Customer satisfaction	10%	8.1%
Employee engagement	10%	5.0%
Total (before moderation)	100%	82.6%

While the Remuneration Committee concluded that the Company had performed very well against the pre-set targets, consistent with prior years, it considered the indicative out-turn against its broader assessment of performance and specifically considered that, while good progress was made on strategic and risk initiatives set by the Board, it was appropriate to moderate the overall score down to 75% of maximum.

Given the closed fund nature of the Company and that the Board periodically looks at other transactions to enhance value for shareholders, whilst the performance measures for AIP and details of the overall out-turn are disclosed, the detailed targets for the performance measures are considered commercially sensitive (and are likely to remain so) and are accordingly not further disclosed.

LTIP OUTCOMES FOR 2011 AWARDS

Performance metric	% of award subject to metric	Target range	Performance achieved	Vesting outcome
MCEV	50%	Target range between MCEV growth in excess of the risk-free rate by 2.5% per annum and MCEV growth in excess of the risk-free rate by 6% per annum	8.1%	100%
Cash generation	50%	Target range between cumulative net cash generation of £1.217 billion and cash generation of £1.517 billion	£2.0 billion	100%

In addition to the above targets, the Remuneration Committee confirmed that the underpin performance condition relating to management of debt within the Group (as described more fully below) had been achieved in the performance period. As previously mentioned, Clive Bannister decided to voluntarily waive any vesting under this award in excess of two-thirds of the maximum. This related to the 2011 LTIP only and is not indicative of any intent in respect of future awards.

NON-EXECUTIVE FEES

The emoluments of the Non-Executive Directors for 2013 based on the current disclosure requirements were as follows:

Name	Directors salaries/fees £	Benefits £	Total 2013 £	Total 2012 £
Non-Executive Chairman				
Howard Davies	325,000	–	**325,000**	81,250
Non-Executive Directors				
Ian Ashken	34,103	–	**34,103**	100,000
René-Pierre Azria	100,000	–	**100,000**	100,000
Alastair Barbour	30,000	–	**30,000**	–
David Barnes	110,000	–	**110,000**	110,000
Charles Clarke	34,103	–	**34,103**	100,000
Ian Cormack	121,250	–	**121,250**	120,000
Tom Cross Brown	120,000	–	**120,000**	120,000
Manjit Dale	100,000	–	**100,000**	100,000
Isabel Hudson	100,000	–	**100,000**	100,000
Alastair Lyons	93,750	–	**93,750**	125,000
Hugh Osmond	66,667	–	**66,667**	100,000
David Woods	130,000	–	**130,000**	130,000
			1,364,873	1,286,250

PENSIONS

Clive Bannister and James McConville are entitled to each receive a Company contribution of 20% of base salary (less an amount equivalent to employers' NICs if paid as a cash supplement) which may, at their choice, be paid to a GPP or received in cash if the individual is impacted by the lifetime or annual allowance.

During the year to 31 December 2013, the Group has made the following GPP payments:

	Group contribution £	Cash supplement £	Total £
Clive Bannister	66,250	64,807	131,057
James McConville	–	70,299	70,299

Share-based awards

As at 31 December 2013, Directors' interests under long-term share-based arrangements were as follows:

LTIP

	Date of grant	Share price on grant	As at 1 Jan 2013	Shares granted in 2013	Face value of 2013 awards	Shares vested	Shares lapsed	As at 31 Dec 2013	Vesting date
Clive Bannister									
LTIP[1,2]	12 April 2011	657.5p	212,927	–	–	–	–	218,408[3]	12 April 2014
LTIP[1,2]	2 April 2012	566.5p	247,131	–	–	–	–	253,493[3]	2 April 2015
LTIP[1,2]	15 November 2013	712p	–	196,629	1,399,998[4]	–	–	196,629	15 November 2016
			460,058	**196,629**	**1,399,998**	**–**	**–**	**668,530**	
James McConville									
LTIP[1,2]	23 August 2012	485p	164,948		–	–	–	169,194[3]	23 August 2015
LTIP[1,2]	15 November 2013	712p	–	112,359	799,996[4]	–	–	112,359	15 November 2016
			164,948	**112,359**	**799,996**			**281,553**	

1 In addition to the shares awarded under the LTIP presented above, 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.

2 Aggregate gains of Directors from share options exercised and vesting shares in 2013 was £nil (2012: £nil). The 2013 long-term incentive value shown in the single figure will only vest in April 2014.

3 2011 and 2012 LTIP awards were increased as a result of the placing and open offer of 50,000,000 shares on 21 February 2013. The increases were made on the basis of the standard formula of share plan adjustments on such event. The aggregate figure shown in the column 'As at 31 Dec 2013' reflects this increase in awards.

4 The face value of awards granted in 2013 represents the maximum vesting of awards (but before any credit for dividends over the period to vesting) and is calculated using a share price of 712p being the closing middle market price on the award date. The vesting % at threshold performance (2013 awards) for Clive Bannister and James McConville is 25%.

Following the year-end, the Group Chief Executive Officer elected to waive his entitlement to any vesting of the 2011 LTIP in excess of two-thirds of the maximum.

REMUNERATION REPORT
CONTINUED

The performance conditions for the 2011, 2012 and 2013 awards are set out below:

Performance measure	2011 award (50% MCEV and 50% cash generation)	2012 award (40% MCEV, 40% cash generation and 20% TSR)	2013 award (40% MCEV, 40% cash generation and 20% TSR)
MCEV growth 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests Measured over three financial years commencing with the year of award	Target range between MCEV growth in excess of the risk-free rate by 2.5% per annum and MCEV growth in excess of the risk-free rate by 6% per annum	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 between MCEV growth in excess of the risk-free rate by 4% per annum and MCEV growth in excess of the risk-free rate by 6% per annum
Cash generation 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests Measured over three financial years commencing with the year of award	Target range between cumulative net cash generation of £1.217 billion and cash generation of £1.517 billion	Target range between cumulative net cash generation of £1.330 billion and cash generation of £1.830 billion	Target range between cumulative net cash generation of £1.329 billion and cash generation of £1.529 billion
TSR 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests For the 2012 award the performance period was commenced on grant. For the 2013 award (and future awards) the performance period was aligned to the period of financial years applying to the 2 financial measures	N/A	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 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
Debt underpin	Notwithstanding the MCEV, cash generation and TSR performance targets, if the Remuneration Committee determines that the Group's debt levels and associated interest costs have not remained within parameters acceptable to the Remuneration 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 for 2013 onwards, risk management) and capital structuring, the level of awards vesting will either be reduced or lapse in full.		

As noted in the Directors' Remuneration Policy report, LTIP awards to be made in 2014 will be subject to performance measures similar to those described in the table above, and the exact performance targets will be determined by the Remuneration Committee shortly before the awards are made.

DBSS

Deferred annual incentive shares	Date of award	Shares awarded	Share price on award	Lapsed	As at 31 Dec 2013	Vesting date
Clive Bannister	2 April 2012	40,412	5.625	–	41,452[1]	2 April 2015
James McConville	2 April 2012	–	–	–	–	–
Clive Bannister	27 March 2013	36,748	6.585	–	36,748	27 March 2016
James McConville	27 March 2013	11,999	6.585	–	11,999	27 March 2016

1 DBSS awards granted prior to 2013 were increased as a result of the placing and open offer of 50,000,000 shares on 21 February 2013. The increases were made on the basis of the standard formula of share plan adjustments on such event. The aggregate figure shown in the column 'As at 31 Dec 2013' reflects this increase in options for Clive Bannister.

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, participants received 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

	As at 1 Jan 2013	Shares granted in 2013	Shares vested	Shares lapsed	As at 31 Dec 2013	Exercise price	Exercisable from	Date of expiry
Clive Bannister	1,577	–	–	–	1,617	£5.57	01 Jun 2014	30 Nov 2014
James McConville	–	1,607	–	–	1,607	£5.60	01 Jun 2016	30 Nov 2016

Notes:

Sharesave awards granted prior to 2013 were increased as a result of the placing and open offer of 50,000,000 shares on 21 February 2013. The increases were made on the basis of the standard formula of share plan adjustments on such event. The aggregate figure shown in the column 'As at 31 Dec 2013' reflects this increase in options for Clive Bannister.

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.

Sharesave options are not subject to performance conditions.

The Sharesave options granted to James McConville represents options granted for the then maximum monthly savings of £250 per calendar month for three years.

During the year ended 31 December 2013, the highest mid-market price of the Company's shares was 788.5p and the lowest mid-market price was 531.3p. At 31 December 2013, the Company's share price was 727.5p.

DIRECTORS' INTERESTS

Name	As at 1 January 2013 or date of appointment if later	As at 31 December 2013 or retirement if earlier and as at 25 March 2014	Total share plan interests – LTIP	Total share plan interests – DBSS	Total share plan interests – Sharesave
Clive Bannister	–	–	668,530	78,200	1,617
James McConville	–	–	281,533	11,999	1,607
Ian Ashken[1]	1,263,698	1,509,796	–	–	–
René-Pierre Azria	28,869	34,491	–	–	–
Alastair Barbour	–	–	–	–	–
David Barnes	2,300	2,747	–	–	–
Charles Clarke[2]	2,000	2,389	–	–	–
Ian Cormack	–	3,650	–	–	–
Tom Cross Brown	1,664	1,988	–	–	–
Manjit Dale[3]	–	–	–	–	–
Howard Davies	–	3,623	–	–	–
Isabel Hudson	3,249	3,880	–	–	–
Alastair Lyons[4]	7,500	8,961	–	–	–
Hugh Osmond[5]	11,072,825	13,229,201	–	–	–
David Woods	–	3,500	–	–	–

1 Ian Ashken held 1,330,585 shares in his own name. Tasburgh LLC, of which Ian Ashken is a managing member, holds 179,211 shares and was considered a connected person to Mr Ashken. Mr Ashken's share interests are shown as at his date of leaving on 2 May 2013.

2 Charles Clarke's share interests are shown as at his date of leaving on 2 May 2013.

3 Manjit Dale is a director of TDR Capital Nominees Limited and as such this company is considered as a connected person. Total interests held by this entity amount to 13,923,409.

4 Alastair Lyons' share interests are shown as at his date of leaving on 30 September 2013.

5 Hugh Osmond is a director of Xercise2 Limited and Xercise Limited and as such these are considered as connected persons. Total interests held by these entities amount to 17,394,353. Mr Osmond's share interests are shown as at his date of leaving on 21 August 2013.

REMUNERATION REPORT CONTINUED

As explained in the Directors' Remuneration Policy, the Executive Directors are subject to share ownership guidelines.

The extent to which Executive Directors have achieved the guideline requirements by 31 December 2013 can be summarised as follows:

Executive Director	Share Ownership Guideline (% of salary)	Value of shares held at 31 December 2013 (% of salary)
Clive Bannister	200%	0%
James McConville	100%	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, SAYE, 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 Share Ownership Guidelines.

The Group Chief Executive Officer has confirmed that he will, net of taxes, retain all the shares which vest in April 2014 in respect of the 2011 LTIP which will then count towards these guidelines.

ADDITIONAL FCA DISCLOSURES

CODE STAFF

The Remuneration Committee has identified the Group's asset management subsidiary, Ignis Asset Management, as a Code firm. By virtue of its influence over Ignis, the Remuneration Committee has determined that Phoenix Group Holdings is also a Code firm. Both companies have been identified as Tier 4 (now renamed Tier 3) Code firms. The Remuneration Committee has determined that 14 staff within Ignis qualify as Code Staff. The Remuneration Committee has also determined that a further 27 Group employees, who have sufficient supervisory responsibility over Ignis' activities, qualify as Code Staff.

Whilst not all of Phoenix Group's activities are covered by the FCA Remuneration Code, the Remuneration Committee anticipates broadly equivalent provisions will apply, in due course, via Solvency II. The Remuneration Committee considers the FCA Remuneration Code to reflect best practice and has due regard to it across the Group.

CODE STAFF CRITERIA

The following groups of employees have been identified within the Code firms as meeting the FCA's criteria for Code Staff:

- Certain members of the Group Board and Executive Committee
- Ignis independent Non-Executive Directors
- Employees performing a Significant Influence Function in relation to the Code firm
- Key control function roles.

DESIGN AND STRUCTURE OF REMUNERATION

The individual elements of employees' remuneration packages at Phoenix Group comprise fixed pay (base salary, pension and other benefits) and performance-related pay (consisting of annual incentives, deferred awards and long-term incentives).

Taking into account the expected value of long-term incentives, the performance-related elements of the package make up a considerable proportion of the total remuneration of Code Staff, while maintaining an appropriate balance between fixed and variable elements.

SALARY AND FEES

All Code Staff receive either a salary (employees) or fees (Non-Executive Directors) to reflect their experience, skills, competencies and contribution to the Group relative to the market for comparable roles. Phoenix ensures that fixed remuneration is sufficient to cover employees' key financial needs while generally seeking to pay around a mid-market range.

Phoenix Group also operates a fully flexible annual incentive policy which allows zero annual incentive payments to be made when appropriate.

BENEFITS

Code Staff receive benefits in line with other employees that includes pension, life assurance, staff discounts (for Ignis employees) and may include car allowance and private medical insurance. Non-Executive Directors who are listed as Code Staff do not receive any benefits.

ANNUAL INCENTIVES

Rationale and eligibility criteria

All executive Code Staff are eligible to receive an annual incentive. Annual incentives are designed to reward good financial and non-financial performance that supports the business strategy, taking into account the Group's risk appetite and personal contribution in the context that it was delivered.

Non-Executive Code Staff are not eligible to receive annual incentives.

Performance measurement/assessment

For Group and Life company employees, performance assessment is normally based upon a balanced scorecard of measures related to Group and individual targets. These targets typically include financial performance, risk, people and customer measures. Overall AIP costs are reviewed by the Remuneration Committee at the year-end having regard to the Group's financial and non-financial measures.

Ignis employees' annual incentives are financed from a defined profit pool (subject to discretion being reserved to the Remuneration Committee to adjust the percentage available). Distribution of the pool has due regard to objectives similar to those in the Group and Life company.

With the exception of one individual, for all Code Staff in control functions (Internal Audit, Regulatory Compliance and Risk) reward is linked to achievement against individual objectives and excludes any direct link to financial performance. A similar approach is also adopted in respect of the with-profits actuary.

In each case target levels of individual reward have regard to market levels for comparable roles internally and externally.

All incentive awards to Code Staff are subject to the review and support of the Remuneration Committee.

Deferral and vesting

The Remuneration Committee requires that one-third of annual incentives for the senior Group employees be deferred into Phoenix Group Holdings shares. Equivalent rules apply to Ignis employees who are required to defer part of their annual incentive into phantom shares where the value of the outcome is determined by Ignis' financial performance. This extends to the majority of Code Staff.

LONG-TERM INCENTIVES

Group

To encourage the creation of value over the long-term and to align the rewards of the participants with the returns to shareholders, the Group provides employees in senior roles (executive level and selected senior management) the opportunity to receive annual awards of long-term incentives. The full details of the LTIP are given in Part A of the Remuneration Report.

Ignis

Executive level and selected senior management employees are eligible to receive awards subject to the rules of the Ignis Long Term Phantom Option Plan ('LTOP'). Awards may be made annually but are typically one-off in nature and reward the growth in the notional value of Ignis over a six year period (with one-third of the award vesting on the fourth, fifth and sixth anniversaries of the grant date). Awards take the form of a cash settled option. Where it has been necessary as a part of the recruitment process, the Remuneration Committee has provided an underpin to the value of the award to reflect the value forfeited by employees due to leaving previous employers.

RISK ADJUSTMENT

To manage the risk aspects of the Remuneration Policy, the Remuneration Committee considers the performance of the Group and individual businesses against risk objectives in determining the annual incentive pool and requires the Chief Risk Officer to report to the Remuneration Committee on this.

QUANTITATIVE REMUNERATION DISCLOSURE

The Group is required to disclose aggregate quantitative remuneration information for its Code Staff.

There were 27 Code Staff that have been classified as Group and 14 as Ignis. Aggregate remuneration expenditure is broken down as follows:

	Number of staff	£m
Non-Executive Directors	15	1.38
Senior Management	12	12.01
Others	14	8.99
Total	41	22.38

	Number of staff	£m
Ignis	14	8.87
Group	27	13.51
Total	41	22.38

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
25 March 2014

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 (2012: 21p per share)
Recommended final dividend	26.7p per share (2012: 26.7p per share)
Total ordinary dividend 53.4p per share	(2012: 47.7p per share)

SHARE CAPITAL

The issued share capital of the Company was increased by 50,231,153 ordinary shares during 2013. 50,000,000 were allotted as a result of the placing and open offer which took place in February 2013 and the balance related to the Company's Sharesave Scheme. At 31 December 2013, the issued ordinary share capital totalled 224,818,301. Subsequently, 3,109 ordinary shares have been issued in 2014 in connection with the Company's Save As You Earn ('SAYE') Scheme to bring the total in issue to 224,821,410 at the date of this report.

Full details of the authorised, issued and fully paid share capital as at 31 December 2013 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 25 March 2014, the Company had been notified or was aware of the following significant holdings of voting rights in its shares.

	Number of voting rights in shares	Percentage of shares in issue
TDR Capital Nominees Limited[1]	13,923,409	6.19
Xercise2 Limited	11,452,611	5.09
Henderson Global Investors	11,427,356	5.08
Artemis Investment Management LLP	11,347,387	5.05
FIL Limited	11,322,184	5.03
William Alan McIntosh	9,597,493	4.27
Nicholas Berggruen Charitable Trust	8,906,712	3.96
Hugh Edward Osmond	8,823,352	3.92

1 TDR Capital Nominees Limited is controlled by TDR Capital LLP, of which Manjit Dale is a Partner. The stated shareholding includes ordinary shares also held by Jambright Limited, Jambright Midco Limited.

ANNUAL GENERAL MEETING ('AGM')

The AGM of the Company will be held at 32 Commercial Street, St Helier, Jersey JE2 3RU on Wednesday, 30 April 2014 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 2013 is given within the Corporate Governance Report on pages 56 to 57 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 Remuneration Report.

During 2013 and up to the date of this report, the following changes to the Board took place:

- Ian Ashken and Charles Clarke ceased to be directors of the Company with effect from 2 May 2013, having decided not to stand for re-election at the AGM
- Hugh Osmond resigned from the Board on 21 August 2013
- Alastair Lyons resigned from the Board on 30 September 2013
- Alastair Barbour joined the Board as a Non-Executive Director with effect from 1 October 2013
- Ian Cormack succeeded Alastair Lyons as Senior Independent Director with effect from 1 October 2013.

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 Remuneration Report and in note 42 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 30 April 2014 (except for Manjit Dale, who is not standing for re-election).

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 2 May 2013, 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.

DIRECTORS' REPORT
CONTINUED

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. In addition the Strategic Report also provides details of any key events affecting the Company (and any subsidiaries included in its consolidating) 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 page 49. 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 39), its commitments and contingent liabilities (notes 41 and 43) and its capital position and management (note 38). The Strategic Report (on pages 12 to 23) 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.

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 59 to 67 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 51 to 53.

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 and in some cases, approval of the Group's main lenders.

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

Ernst & Young Accountants LLP has indicated its willingness to continue in office and a resolution that it is re-appointed will be proposed at the AGM. There is a liability cap in place in relation to audit work that is carried out by Ernst & Young Accountants LLP (Netherlands) on the consolidated IFRS financial statements, consistent with audit practice in the Netherlands. For the MCEV supplementary information and the Group's UK subsidiaries' individual financial statements, which are audited by Ernst & Young LLP (UK), there is no cap on auditor liability.

Details of fees paid to Ernst & Young during 2013 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.

DIRECTORS' REPORT
CONTINUED

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. Upon a change of control of the Company, the principal amounts outstanding and the accrued interest under the Pearl and Impala facility agreements, the Pearl loan notes, the Royal London PIK facility and Royal London PIK notes would become immediately repayable or be required to be immediately redeemed.

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 two main credit facilities, 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 also provides the opportunity for employees to participate in the Company's all-employee share schemes, SAYE 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 2013 and which covers the future developments in the business of Phoenix Group Holdings and its consolidated subsidiaries. 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.

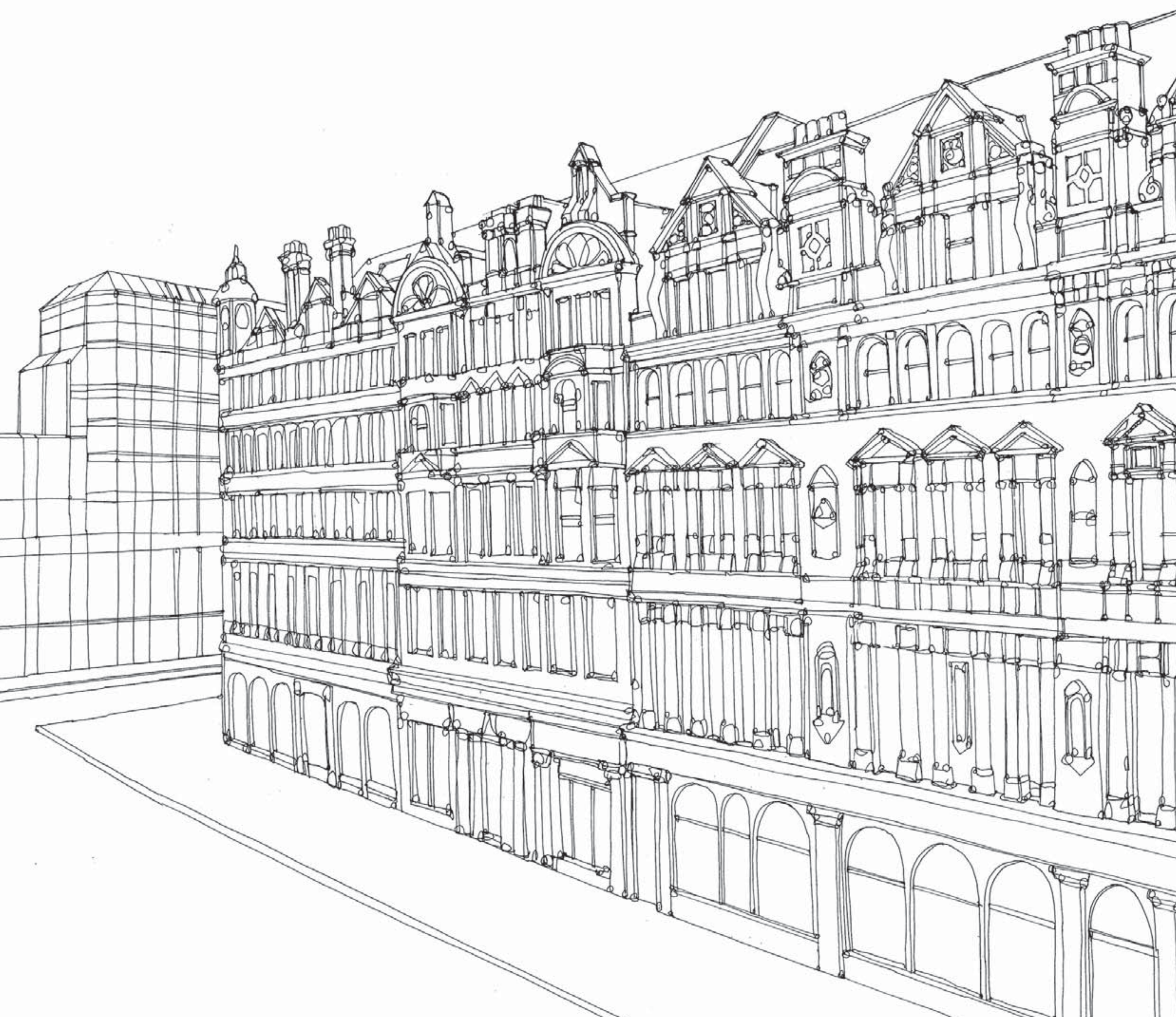
The Strategic Report and the Directors Report were approved by the Board of Directors on 25 March 2014.

CLIVE BANNISTER
Group Chief Executive Officer
St Helier, Jersey
25 March 2014

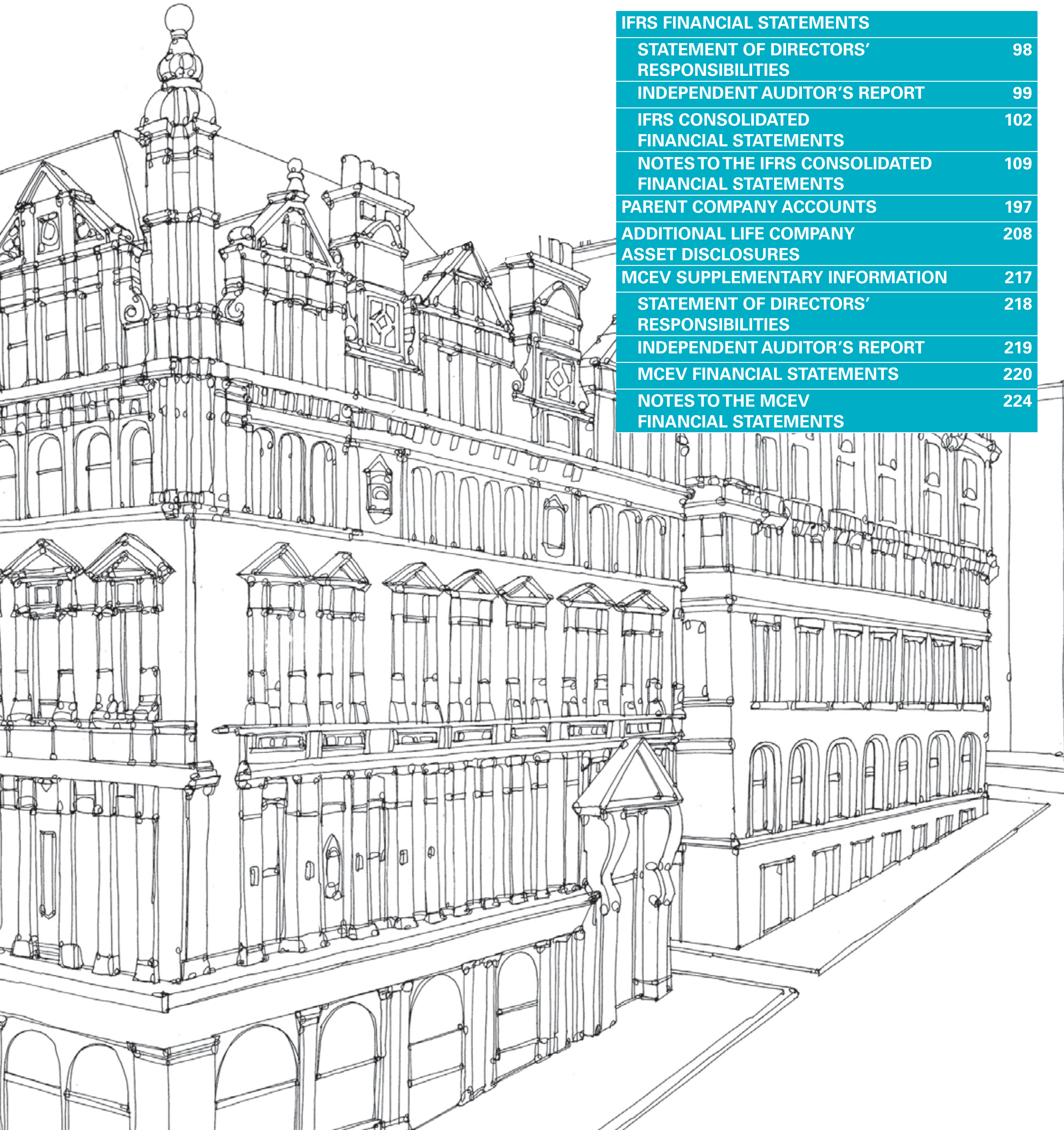
JAMES MCCONVILLE
Group Finance Director

BOTHWELL STREET, GLASGOW

The Bothwell Street office is home to several of Ignis' investment desks as well as distribution and key support functions.



FINANCIAL INFORMATION



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

BOARD RESPONSIBILITY STATEMENT ACCORDING TO SECTION 5:25C (2) (C) OF THE DUTCH FINANCIAL MARKETS SUPERVISION ACT

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

- the Directors are responsible for the preparation of the Annual Report and Accounts in accordance with applicable Dutch law and International Financial Reporting Standards ('IFRS') as adopted by the European Union;
- the IFRS financial statements for the year ended 31 December 2013 give a true and fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings and its consolidated subsidiaries taken as a whole;
- the Annual Report and Accounts gives a true and fair view of the state of affairs of Phoenix Group Holdings and its consolidated subsidiaries as at 31 December 2013 and their development in the financial year to which the Annual Report and Accounts relate; and
- the Annual Report and Accounts describes the principal risks facing Phoenix Group Holdings.

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) with the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable.

CLIVE BANNISTER
Group Chief Executive Officer
St Helier, Jersey
25 March 2014

JAMES MCCONVILLE
Group Finance Director

INDEPENDENT AUDITOR'S REPORT

To: The Meeting of Shareholders of Phoenix Group Holdings

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2013 of Phoenix Group Holdings, Cayman Islands, (the 'Group') (as set out on pages 102 to 207). The financial statements include the Group's consolidated financial statements and the parent company financial statements. The consolidated financial statements comprise the statement of consolidated financial position as at 31 December 2013, the consolidated income statement, 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 for the year then ended and the related notes 1 to 45. The parent company financial statements comprise the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, the statement of financial position as at 31 December 2013 and the related notes A to T.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Statement of Responsibilities set out on page 98, the Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Directors' Report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

In addition, the Company has also instructed us to:

– review the Directors' statement on going concern which, for a listed UK company, is specified for review by the Listing Rules of the Financial Conduct Authority; and

– audit the section of the Directors' Remuneration Report that has been described as audited and state whether it has been properly prepared in accordance with the basis of preparation described therein.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements 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 Company's 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 and Accounts 2013 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.

OPINION WITH RESPECT TO THE FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Phoenix Group Holdings as at 31 December 2013, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

– reasonableness of IFRS actuarial assumptions including persistency, expenses, longevity and credit default assumptions;

– accuracy and completeness of actuarial data and robustness of actuarial modelling processes;

– valuation of complex and illiquid assets; and

– provision for taxation and recoverability of deferred tax assets.

INDEPENDENT AUDITOR'S REPORT CONTINUED

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in both planning and performing the audit, and in evaluating the effect of misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion in the Audit Report. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

When establishing our overall audit strategy, we determined the magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £36 million, which is approximately 2% of equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timings and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely £18 million. Our objective in adopting this approach was to ensure that total detected and undetected audit differences do not exceed our materiality level of £36 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 £1.8 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Following our assessment of the risk of material misstatement to the Group financial statements, we have selected four components which represent the principal business units within the Group's two reportable segments and account for all of the Group's total assets and all of the Group's profit before tax. Phoenix Life was subject to a full scope audit, whilst Ignis Asset Management, Opal Re and Group functions were subject to a specific scope audit where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

The Group audit team continued to follow a programme of planned visits and regular communication that has been designed to ensure that the Group audit team visits each of the locations where the Group audit scope was focused at least once every year. In addition to the location visit, the Group audit team reviewed key working papers and participated in key meetings involving the component teams.

OUR RESPONSE TO THE RISKS IDENTIFIED ABOVE WAS AS FOLLOWS:

- In respect of the actuarial assumptions, we evaluated management's processes and controls over assumption setting and validated the reserving methodologies and assumptions by comparing the valuation assumptions against the Group's own experience investigations, regulatory requirements and industry benchmarks.
- We tested management's control over data extraction process and key actuarial models. We have performed substantive testing on a sample basis to assess the accuracy and completeness of the data extraction process and tested that the key actuarial models represent an effective implementation of the approved methodology and operate as intended.
- We engaged valuations specialists to challenge the methodology and assumptions used in the valuation of complex and illiquid assets. We performed substantive procedures to test the appropriateness of the valuation of these assets.
- We considered the appropriateness of management's assumptions and estimates in deriving the tax provisions and recognising deferred tax assets, and challenged those assumptions and estimates by considering the supporting information and forecasts.

OPINION ON OTHER MATTERS

REPORT ON THE DIRECTORS' REPORT AND OTHER INFORMATION

Pursuant to the legal requirement under Part 9 of Book 2 of the Dutch Civil Code regarding our responsibility to report on the Directors' Report and the other information:

- We have no deficiencies to report as a result of our examination whether the Directors' Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the other information as required under Section 2: 392 sub 1 at b-h has been annexed.
- We report that the Directors' Report, to the extent we can assess, is consistent with the financial statements.

You have asked us 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.

MATTERS ON WHICH WE REPORT BECAUSE OF VOLUNTARY COMPLIANCE WITH THE UK COMPANIES ACT 2006

We have nothing to report in respect of the following items:

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the consolidated financial statements and the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

In our opinion the part of the Remuneration Report of the Company that has been described as audited as been properly prepared in accordance with the basis of preparation as described therein.

UNDER THE LISTING RULES, WE HAVE NOTHING TO REPORT IN RESPECT OF THE FOLLOWING MATTERS THAT WE ARE REQUIRED, OR YOU HAVE REQUESTED US, TO REVIEW:

- the Directors' statement, set out on page 92, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Amsterdam, 25 March 2014
Ernst & Young Accountants LLP
signed by
J.G. Kolsters

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 £m	2012 Restated £m
Gross premiums written		**1,333**	1,609
Less: premiums ceded to reinsurers	7	**11**	(5,173)
Net premiums written		**1,344**	(3,564)
Fees	8	**180**	157
Net investment income	9	**2,673**	4,600
Total revenue, net of reinsurance payable		**4,197**	1,193
Gain on transfer of business	4	**42**	–
Other operating income		**8**	13
Net income		**4,247**	1,206
Policyholder claims		**(4,830)**	(5,166)
Less: reinsurance recoveries		**464**	364
Change in insurance contract liabilities		**3,411**	645
Change in reinsurers' share of insurance contract liabilities		**(710)**	5,142
Transfer to unallocated surplus	22	**(77)**	(45)
Net policyholder claims and benefits incurred		**(1,742)**	940
Change in investment contract liabilities		**(1,156)**	(750)
Acquisition costs		**(10)**	(3)
Change in present value of future profits	31	**9**	–
Amortisation of acquired in-force business	31	**(111)**	(122)
Amortisation of customer relationships and other intangibles	31	**(19)**	(18)
Administrative expenses	10	**(546)**	(585)
Net income attributable to unitholders		**(252)**	(111)
Total operating expenses		**(3,827)**	(649)
Profit before finance costs and tax		**420**	557
Finance costs	12	**(230)**	(215)
Profit for the year before tax		**190**	342
Tax attributable to policyholders' returns	13	**27**	(33)
Profit before the tax attributable to owners		**217**	309
Tax credit	13	**17**	82
Add: tax attributable to policyholders' returns	13	**(27)**	33
Tax (charge)/credit attributable to owners	13	**(10)**	115
Profit for the year attributable to owners		**207**	424
Attributable to:			
Owners of the parent		**145**	407
Non-controlling interests	20	**62**	17
		207	424
Earnings per ordinary share			
Basic (pence per share)	15	**68.2p**	235.0p
Diluted (pence per share)	15	**68.1p**	234.9p

STATEMENT OF COMPREHENSIVE INCOME

As at 31 December 2013

	Notes	2013 £m	2012 Restated £m
Profit for the year		**207**	424
Other comprehensive income/(expense):			
Items that are or may be reclassified to profit or loss:			
Foreign exchange rate movements		**–**	(8)
Reclassification adjustments relating to foreign collective investment schemes disposed of in the year		**8**	–
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit asset/liability		**–**	(441)
Tax relating to other comprehensive income items	13	**(12)**	114
Total comprehensive income for the year		**203**	89
Attributable to:			
Owners of the parent		**141**	72
Non-controlling interests		**62**	17
		203	89

PRO FORMA RECONCILIATION OF GROUP OPERATING PROFIT TO RESULT ATTRIBUTABLE TO OWNERS

For the year ended 31 December 2013

	Notes	2013 £m	2012 Restated £m
Operating profit			
Phoenix Life		**414**	399
Ignis Asset Management		**49**	43
		463	442
Group costs		**(24)**	(13)
Total operating profit before adjusting items		**439**	429
Investment return variances and economic assumption changes on long-term business	6	**64**	1
Variance on owners' funds	6	**(31)**	(13)
Amortisation of acquired in-force business		**(99)**	(109)
Amortisation of customer relationships and other intangibles		**(19)**	(18)
Non-recurring items	5.2	**(11)**	130
Profit before finance costs attributable to owners		**343**	420
Finance costs attributable to owners		**(126)**	(111)
Profit before the tax attributable to owners	5.2	**217**	309
Tax (charge)/credit attributable to owners		**(10)**	115
Profit for the year attributable to owners		**207**	424

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 £m	2012 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	16	**–**	–
Share premium		**1,097**	982
Other reserves	17	**–**	5
Shares held by employee trust and Group entities	18	**(13)**	(10)
Foreign currency translation reserve		**93**	85
Retained earnings		**732**	596
Total equity attributable to owners of the parent		**1,909**	1,658
Non-controlling interests	20	**778**	724
Total equity		**2,687**	2,382
Liabilities			
Pension scheme liability	30	**137**	197
Insurance contract liabilities			
Liabilities under insurance contracts	21	**42,729**	45,730
Unallocated surplus	22	**970**	893
		43,699	46,623
Financial liabilities			
Investment contracts		**8,578**	8,096
Borrowings	23	**2,359**	3,046
Deposits received from reinsurers		**385**	454
Derivatives	24	**2,156**	3,026
Net asset value attributable to unitholders		**5,309**	4,671
Obligations for repayment of collateral received		**7,284**	10,458
	34	**26,071**	29,751
Provisions	25	**53**	67
Deferred tax	26	**373**	409
Reinsurance payables		**12**	47
Payables related to direct insurance contracts	27	**395**	393
Current tax	26	**107**	71
Accruals and deferred income	28	**139**	166
Other payables	29	**351**	509
Liabilities classified as held for sale	4	**49**	5,479
Total liabilities		**71,386**	83,712
Total equity and liabilities		**74,073**	86,094

	Notes	2013 £m	2012 £m
ASSETS			
Pension scheme asset	30	**160**	137
Intangible assets			
Goodwill		**96**	96
Acquired in-force business		**1,511**	1,622
Customer relationships and other intangibles		**368**	384
Present value of future profits		**32**	23
	31	**2,007**	2,125
Property, plant and equipment	32	**23**	24
Investment property	33	**1,603**	1,727
Financial assets			
Loans and receivables		**1,977**	1,914
Derivatives	24	**1,948**	3,665
Equities		**11,311**	11,005
Fixed and variable rate income securities		**35,262**	40,892
Collective investment schemes		**6,390**	6,044
	34	**56,888**	63,520
Insurance assets			
Reinsurers' share of insurance contract liabilities	21	**2,851**	3,204
Reinsurance receivables		**34**	64
Insurance contract receivables		**12**	10
		2,897	3,278
Current tax	26	**6**	6
Prepayments and accrued income		**460**	500
Other receivables	35	**739**	439
Cash and cash equivalents	36	**9,224**	9,028
Assets classified as held for sale	4	**66**	5,310
Total assets		**74,073**	86,094

STATEMENT OF CONSOLIDATED CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated/(utilised) by operations	37	**1,010**	(2,291)
Taxation paid		**(11)**	(70)
Net cash flows from operating activities		**999**	(2,361)
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		**233**	–
Proceeds from issuing shares in subsidiaries to non-controlling interests		**37**	33
Proceeds of new policyholder borrowings		**–**	90
Ordinary share dividends paid		**(120)**	(72)
Coupon on Perpetual Reset Capital Securities paid		**(26)**	(26)
Dividends paid to non-controlling interests		**(25)**	(23)
Arrangement and structuring fees associated with the re-terming of the Impala loan facility		**(21)**	–
Repayment of policyholder borrowings		**(33)**	(43)
Repayment of shareholder borrowings		**(694)**	(172)
Interest paid on policyholder borrowings		**(18)**	(18)
Interest paid on shareholder borrowings		**(136)**	(103)
Net cash flows from financing activities		**(803)**	(334)
Net increase/(decrease) in cash and cash equivalents		**196**	(2,695)
Cash and cash equivalents at the beginning of the year		**9,028**	11,723
Cash and cash equivalents at the end of the year	36	**9,224**	9,028

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital (note 16) £m	Share premium £m	Other reserves (note 17) £m	Shares held by the employee 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

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year ended 31 December 2013 CONTINUED

	Share capital (note 16) £m	Share premium £m	Other reserves £m	Shares held by the employee trust and Group entities (note 18) £m	Foreign currency translation reserve £m	Retained earnings Restated £m	Total Restated £m	Non-controlling interests (note 20) £m	Total Restated £m
At 1 January 2012	–	1,054	5	(11)	93	511	1,652	714	2,366
Profit for the year	–	–	–	–	–	407	407	17	424
Other comprehensive income for the year	–	–	–	–	(8)	(327)	(335)	–	(335)
Total comprehensive income for the year	–	–	–	–	(8)	80	72	17	89
Dividends paid on ordinary shares	–	(73)	–	–	–	–	(73)	–	(73)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(23)	(23)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(19)	(19)
Shares issued in lieu of dividends	–	1	–	–	–	–	1	–	1
Credit to equity for equity-settled share-based payments	–	–	–	–	–	5	5	–	5
Shares in subsidiaries subscribed for by non-controlling interests	–	–	–	–	–	–	–	35	35
Shares sold by employee trust	–	–	–	1	–	–	1	–	1
At 31 December 2012	–	982	5	(10)	85	596	1,658	724	2,382

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 the 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.

There is a restriction on the ability of certain subsidiary companies to distribute funds to Phoenix Group Holdings as a result of restrictions imposed by the Group's two main credit agreements, namely the Pearl Facility and the Impala Facility (as described in note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements for the year ended 31 December 2013 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 financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and also in accordance with Part 9, Book 2, of the Dutch Civil Code.

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 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 IAS 27 *Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities*, collective investment schemes which are managed by the Group and where more than 50% of the units in issue are directly held by Group entities at the end of the accounting period, are included in the consolidated financial statements, with the interests of external third parties recognised as a liability, see policy (j). 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. Intragroup balances and income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

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.

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

(b) Critical accounting estimates and judgements CONTINUED

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 39.

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. 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. Any judgements made, and uncertainties considered, in arriving at the carrying value of deferred tax in the financial statements are discussed in note 26.

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 plans are long-term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 30.

(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').

The principal assumptions employed in respect of insurance liabilities are given in note 39.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

(e) Insurance contracts and investment contracts with DPF CONTINUED

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 39.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

(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 plans

Obligations for contributions to defined contribution pension plans 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.

Part of the cost of changes in the longevity assumptions of the PGL Pension Scheme is recoverable from certain with-profit funds to the extent that cash contributions are made to the pension scheme. Recoveries are recognised when the related cash contributions are agreed with the Trustee of the pension scheme and are accounted for as a transfer to other comprehensive income from insurance contract liabilities.

(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 Asset Management). 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 IAS 31 *Interests in Joint Ventures*. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

(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) 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.

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

(x) 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 expected return on pension assets and liabilities, 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.

(y) 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.

(z) Share capital and shares held by the employee 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 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.

(aa) Non-current assets held for sale

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.

(bb) 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.

(cc) 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.

(dd) Segmental reporting

The Group's results are analysed across two reportable segments: Phoenix Life and Ignis Asset Management. 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.

(ee) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL INFORMATION

The consolidated financial statements for the year ended 31 December 2013, set out on pages 102 to 196, were authorised by the Board of Directors for issue on 25 March 2014.

In preparing the consolidated financial statements, the Group has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1 *Presentation of Financial Statements*) (2013). The amendment requires companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement and disclose them separately from those that will not be reclassified.
- IAS 19 *Employee Benefits* (Amendment) (2013). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group has consequently changed its basis for determining the income or expense related to defined benefit pension schemes. The effect of this change in accounting policy is outlined in note 3.
- IFRS 13 *Fair Value Measurement* (2013) defines fair value and sets out in a single IFRS a framework for measuring fair value. The impact of adopting this new standard is outlined in note 3.
- Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7 *Financial Instruments: Disclosures*) (2013). The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements. The new disclosure requirements are intended to help users of financial statements better assess the effect or potential effect of offsetting arrangements on an entity's financial position.
- Annual Improvements to IFRS 2009–2011 cycle (2013). This makes a number of minor improvements to existing standards and interpretations.

The IASB has issued the following standards, interpretations and amendments which, subject to adoption for use by the EU, 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*. This is the first two parts of a replacement standard for IAS 39 *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities, including some hybrid contracts and general hedge accounting. The mandatory effective date of 2015 has been removed and a new effective will be set by the IASB at a later date.
- IFRS 10 *Consolidated Financial Statements* (2014) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.
- IFRS 11 *Joint Arrangements* (2014) establishes principles for financial reporting by parties to a joint arrangement.
- IFRS 12 *Disclosure of Interests in Other Entities* (2014) combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- IAS 28 *Investments in Associates and Joint Ventures* (Revised) (2014). 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.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32.
- Investment Entities (Amendment to IFRS 10) (2014).
- 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.
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*) (2014). These amendments include an exception to the requirement for the discontinuation of hedge accounting in IAS 39.
- Annual Improvements to IFRS 2010-2012 cycle (2014). This makes a number of minor improvements to existing standards and interpretations.
- Annual Improvements to IFRS 2011-2013 cycle (2014).

When IFRS 10, IFRS 11, IFRS 12, IAS 28 (Revised) and the consequential amendments to these were issued by the IASB the effective date of these standards was 1 January 2013. However, the EU endorsed these standards to be effective from 1 January 2014, with early adoption permitted. The Group currently intends to adopt these standards effective for the period commencing on 1 January 2014. An exercise is currently being undertaken to assess the impact of adopting these standards and it is expected that there will be no significant impact on net assets.

In addition, the following standards, interpretations and amendments have been issued but are not currently relevant to the Group:

– IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (2013).

– IAS 27 *Separate Financial Statements* (Revised) (2013).

– Government Loans (Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*) (2013).

– IFRIC 21 *Levies* (2014).

3. CHANGE IN ACCOUNTING POLICIES

This note details the impacts on the consolidated financial statements as a result of changes in accounting policies during the year. All changes reflect the adoption of new or revised IFRS accounting standards which have become effective for the first time.

(a) Fair value measurement

The Group has adopted IFRS 13 *Fair Value Measurement* from 1 January 2013. As a result of adopting this standard for financial instruments that are recognised at fair value on a recurring basis, the Group will now determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the start of each reporting period. The adoption of IFRS 13 has not had a significant impact on the measurement of the assets and liabilities included within the consolidated financial statements.

(b) Defined benefit pension schemes

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

As a result of the change, the Group now determines the net interest expense/income on the net 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 at the beginning of the annual period. It takes into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments. The net interest on the net surplus/deficit comprises:

– interest cost on the defined benefit obligation;

– interest income on scheme assets; and

– interest on the provision for tax on the economic surplus available as a refund and on the minimum funding requirement obligation.

Previously, the Group determined interest income on scheme assets based on their long-term rate of expected return and all changes in the provision for tax on the economic surplus available as a refund and in the minimum funding requirement obligation were recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. CHANGE IN ACCOUNTING POLICIES CONTINUED

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

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

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

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

4. ASSETS AND LIABILITIES HELD FOR SALE

This note provides details of the assets and liabilities held for sale at the year end and the disposal of a subsidiary undertaking. The principle accounting policies adopted in the preparation of this note are detailed in notes 1(a), 1(aa) and 1(cc).

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

	Carrying amount 2013 £m	Carrying amount 2012 £m
Assets classified as held for sale:		
Goodwill	**–**	19
Acquired in-force business	**–**	138
Financial assets	**55**	61
Reinsurer's share of insurance contract liabilities	**–**	5,083
Other assets	**11**	9
	66	5,310
Liabilities classified as held for sale:		
Liabilities under insurance contracts	**–**	5,404
Deferred tax liabilities	**–**	23
Payables related to direct insurance contracts	**48**	42
Other liabilities	**1**	10
	49	5,479

ANNUITY LIABILITIES TRANSFER

The Group entered into a reinsurance agreement, effective 1 July 2012, to reinsure certain portfolios of the Group's annuity liabilities to Guardian in exchange for the transfer of financial assets of £5.1 billion. The business was transferred to Guardian on 30 September 2013 using a scheme under Part VII of the Financial Services and Markets Act 2000 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)/credit attributable to owners in the consolidated income statement.

GENERAL INSURANCE

During 2012, the Group made considerable progress with its strategy to exit from its residual, non-core general insurance business. In April 2012, the general insurance business of Phoenix Life Assurance Limited (formerly Pearl Assurance Limited) was transferred under a Part VII scheme to BAGI, a fellow group company – which resulted in all of the Group's residual general insurance liabilities being held in the same entity. The Group completed the sale of its entire interest in BAGI on 18 March 2014 and accordingly its assets and liabilities were classified as held for sale as at 31 December 2013.

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 (dd).

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

For management purposes, the Group is organised into business units based on their products and services and has two operating segments as follows:

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

Segment performance is evaluated based on profit or loss which, in certain respects, is presented differently from profit or loss in the consolidated financial statements. Group financing (including finance costs) and owners' taxes are managed on a Group basis and are not allocated to individual operating segments.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. SEGMENTAL ANALYSIS CONTINUED

5.1 SEGMENTAL RESULT

2013

	Phoenix Life £m	Ignis Asset Management £m	Unallocated Group £m	Eliminations £m	Total £m
Net premiums written from:					
External customers	1,344	–	–	–	1,344
Fees from:					
External customers	132	48	–	–	180
Other segment	–	102	–	(102)	–
	132	150	–	(102)	180
Net investment income:					
Recurring	2,667	–	(1)	–	2,666
Non-recurring	–	7	–	–	7
	2,667	7	(1)	–	2,673
Other operating income:					
Recurring	8	–	–	–	8
Gain on transfer of business:					
Non-recurring	42	–	–	–	42
Net income	4,193	157	(1)	(102)	4,247
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)	–	–	(19)
	(127)	(6)	–	–	(133)
Other operating expenses:					
Recurring	(1,909)	(98)	13	102	(1,892)
Non-recurring	(11)	(2)	(47)	–	(60)
	(1,920)	(100)	(34)	102	(1,952)
Total operating expense	(3,789)	(106)	(34)	102	(3,827)
Profit/(loss) before finance costs and tax	404	51	(35)	–	420
Finance costs	(104)	–	(126)	–	(230)
Profit/(loss) before tax	300	51	(161)	–	190
Tax attributable to policyholders' returns	27	–	–	–	27
Segmental result before the tax attributable to owners	327	51	(161)	–	217

2012

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. SEGMENTAL ANALYSIS CONTINUED

5.2 RECONCILIATION OF OPERATING PROFIT/(LOSS) BEFORE ADJUSTING ITEMS TO THE SEGMENTAL RESULT

2013

	Phoenix Life £m	Ignis Asset Management £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	**–**	**–**	**(126)**	**(126)**
Segmental result before the tax attributable to owners	**327**	**51**	**(161)**	**217**

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);
- 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 include a gain on the reinsurance agreement with Guardian offset by corporate project costs.

2012

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

Non-recurring items include:

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

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. This note explains the methodology behind this.

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

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:

	2013 £m	2012 £m
Variances on owners' funds of:		
Subsidiary undertakings	**(29)**	(13)
The Company	**(2)**	–
	(31)	(13)

The negative variance on owners' funds of subsidiary undertakings of £29 million primarily relates to fair value losses on swap and equity hedging positions held within the shareholder funds. The variances on owners' funds of the Company of £2 million (2012: £nil) comprise fair value gains arising from movements in the fair value of warrants in issue over the Company's shares.

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 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:

	2013 %	2012 %
Equities	**5.4**	5.6
Properties	**4.4**	4.6
Gilts (15 year gilt)	**2.4**	2.6
Other fixed interest	**3.4**	3.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. REINSURANCE

No significant new reinsurance agreements were entered into during the year. In 2012, the Company entered into a reinsurance agreement with Guardian to reassure selected portfolios of its pension annuity in-payment liabilities with effect from 1 July 2012.

The Company paid a reinsurance premium of £5,104 million to Guardian and a non-recurring gain of £177 million, gross of tax, was recognised in the consolidated income statement in 2012. In September 2013, the reinsurance agreement was replaced by a transfer of the related liabilities under Part VII of the Financial Services and Markets Act 2000. For further details see note 4.

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 £1,881 million (2012: £7,350 million). The large decrease in collateral for reinsurance transactions is largely driven by the replacement of the Guardian reinsurance agreement by the Part VII transfer of liabilities completed in September 2013.

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 2013 are set out below.

	Reinsurance transactions	
	2013 £m	2012 £m
Financial assets	**379**	445
Financial liabilities	**379**	445

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(x).

	2013 £m	2012 £m
Fund management based fees	**87**	63
Investment contract income	**93**	94
	180	157

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(x).

	2013 £m	2012 Restated £m
Investment income		
Interest income on loans and receivables	**11**	40
Interest income on impaired financial assets	**–**	1
Interest income on financial assets designated at fair value through profit or loss on initial recognition	**1,552**	2,433
Dividend income	**687**	674
Rental income	**80**	88
Net interest (expense)/income on Group defined benefit pension scheme asset/liability	**(1)**	15
	2,329	3,251
Fair value gains/(losses)		
Loans and receivables	**10**	–
Financial assets at fair value through profit or loss		
Designated upon initial recognition	**576**	1,788
Held for trading – derivatives	**(314)**	(354)
Investment property	**72**	(85)
	344	1,349
Net investment income	**2,673**	4,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. ADMINISTRATIVE EXPENSES

This note gives further details on the items included within administrative expenses in the consolidated income statement and an analysis of which operating segment our employees work within.

	2013 £m	2012 £m
Employee costs	158	144
Outsourcer expenses	125	134
Professional fees	50	76
Office costs	43	49
Depreciation of property, plant and equipment	3	3
Investment management expenses and transaction costs	96	89
Direct costs of life companies	8	27
Direct costs of collective investment schemes	35	28
Pension service costs and curtailments	13	5
Impairment of property, plant and equipment	–	4
Other	15	26
	546	585

Employee costs comprise:

	2013 £m	2012 £m
Wages and salaries	146	132
Social security contributions	12	12
	158	144

	2013 Number	2012 Number
Average number of persons employed		
Phoenix Life	807	809
Ignis Asset Management	393	456
	1,200	1,265

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 £7.6 million (2012: £7.6 million). No services were provided by the Company's auditors to the Group's pension schemes in either 2013 or 2012.

	2013 £m	2012 £m
Audit of the consolidated financial statements	0.5	0.4
Audit of the Company's subsidiaries	2.3	2.7
Audit of MCEV supplementary information	0.4	0.5
	3.2	3.6
Audit-related assurance services	0.7	1.8
Reporting accountant assurance services	1.0	1.6
Total fee for assurance services	4.9	7.0
Corporate finance services	2.7	–
Tax advisory services	–	0.1
Other non-audit services	–	0.5
Total fees for other services	2.7	0.6
Total auditor's remuneration	7.6	7.6

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(y).

	2013 £m	2012 £m
Interest expense		
On financial liabilities at amortised cost	195	189
On financial liabilities at fair value through profit or loss	35	26
	230	215
Attributable to:		
– policyholders	104	104
– owners	126	111
	230	215

13. TAX (CREDIT)/CHARGE

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 (CREDIT)/CHARGE

	2013 £m	2012 Restated £m
Current tax:		
UK Corporation tax	50	24
Overseas tax	14	15
	64	39
Adjustment in respect of prior years	(10)	6
Total current tax	54	45
Deferred tax:		
Impact of new life tax regime	–	(12)
Origination and reversal of temporary differences	(61)	(45)
Change in the rate of UK corporation tax	(35)	(28)
Movement in unrecognised deferred tax	25	(42)
Total deferred tax credit	(71)	(127)
Total tax credit	(17)	(82)
Attributable to:		
– policyholders	(27)	33
– owners	10	(115)
Total tax credit	(17)	(82)

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax (benefit)/charge attributable to policyholder earnings was £(27) million (2012: £33 million).

13.2 TAX CHARGED/(CREDITED) TO OTHER COMPREHENSIVE INCOME

	2013 £m	2012 Restated £m
Deferred tax on remeasurement losses/gains of defined benefit schemes	12	(114)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. TAX (CREDIT)/CHARGE CONTINUED

13.3 RECONCILIATION OF TAX (CREDIT)/CHARGE

	2013 £m	2012 £m
Profit before tax	**190**	342
Policyholder tax credit/(charge)	**27**	(33)
Profit before the tax attributable to owners	**217**	309
Tax at standard UK[1] rate of 23.25% (2012: 24.5%)	**50**	75
Non-taxable income and gains	**4**	(29)
Disallowable expenses	**7**	2
Adjustment to shareholders tax charge in respect of prior years	**21**	18
Profits taxed at rates other than 23.25% (2012: 24.5%)	**(38)**	(35)
Recognition of previously unrecognised deferred tax assets	**–**	(85)
Deferred tax rate change	**(36)**	(36)
Temporary differences not valued	**4**	(7)
Impact of new life tax regime	**–**	(12)
Other	**(2)**	(6)
Owners' tax charge/(credit)	**10**	(115)
Policyholder tax (credit)/charge	**(27)**	33
Total tax credit for the year	**(17)**	(82)

1 The Group's two operating segments operate predominantly in the UK. The reconciliation of the tax credit has, therefore, been completed by reference to the standard rate of UK tax rather than by reference to the Jersey income tax rate of 0% which is applicable to Phoenix Group Holdings.

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 2013 consolidated financial statements. The accounting policy adopted in the preparation of this note is detailed in note 1(w).

	2013 £m	2012 £m
Dividends declared and paid in 2013	**120**	73

On 21 March 2013, the Board recommended a final dividend of 26.7p per share in respect of the year ended 31 December 2012. The dividend was approved at the Company's Annual General Meeting, which was held on 2 May 2013. The dividend amounted to £60 million and was settled on 3 May 2013.

On 21 August 2013, the Board declared an interim dividend of 26.7p per share for the half year ended 30 June 2013. The total dividend amounted to £60 million and was paid on 3 October 2013.

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(v).

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

	2013 £m	2012 Restated £m
Profit for the year	**207**	424
Share of result attributable to non-controlling interests (note 20)	**(62)**	(17)
Profit attributable to owners	**145**	407

The basic earnings per share of 68.2p (2012 (restated): 235.0p) has been based on the profit attributable to owners of the parent of £145 million (2012 (restated): £407 million) and a weighted average number of ordinary shares outstanding during the year of 212 million (2012: 173 million), calculated as follows:

	2013 Number million	2012 Number million
Issued ordinary shares at beginning of the year	**174**	174
Effect of ordinary shares issued/redeemed	**39**	–
Own shares held by employee trust and Group entities	**(1)**	(1)
Weighted average number of ordinary shares	**212**	173

The diluted earnings per share of 68.1p (2012 (restated): 234.9p) has been based on the profit attributable to owners of the parent of £145 million (2012 (restated): £407 million) and a diluted weighted average number of ordinary shares outstanding during the year of 212 million (2012: 173 million). The Group's Deferred BSP share-based scheme increased the weighted average number of shares on a diluted based by 176,832 shares (2012: 94,198).

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 ('the Lenders') on 2 September 2009;

– 12.36 million warrants issued to Royal London on 2 September 2009; and

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

Details of the warrants are given in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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(z).

	2013 £	2012 £
Authorised:		
410 million (2012: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750
Issued and fully paid:		
224.8 million (2012: 174.6 million) ordinary shares of €0.0001 each	**18,418**	14,174

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:

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 21 February 2013 of 50 million ordinary shares. The proceeds of the equity raising net of deduction of commissions and expenses were £232 million.

During the year, the Company issued 231,153 shares at a premium of £1 million in order to satisfy its obligations to employees under the Group's share schemes.

2012

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

During 2012, the Company did not issue any shares 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 has therefore been reclassified within equity to retained earnings.

18. SHARES HELD BY THE EMPLOYEE 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 issued to Phoenix Life Assurance Limited. The accounting policy adopted in the preparation of this note is detailed in note 1(z).

	2013 £m	2012 £m
At 1 January	**10**	11
Shares acquired in year	**11**	–
Vested to employees in year	**(8)**	–
Shares sold in year	**–**	(1)
At 31 December	**13**	10

During the year, 1,144,993 (2012: 18,146) shares were awarded to employees, nil (2012: 229,370) shares were sold to meet the Group's obligation under the deferred cash plan (note 19), nil (2012: 47,349) shares were received as scrip dividends, 203,575 (2012: nil) shares were received following take up by the PGH EBT of its rights under the open offer (see note 16) and 1,425,553 (2012: nil) shares were purchased. The number of shares held by the PGH EBT at 31 December 2013 was 1,529,477 (2012: 1,045,342).

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(y).

19.1 SHARE-BASED PAYMENT EXPENSE

The expense recognised for employee services receivable during the year is as follows:

	2013 £m	2012 £m
Expense arising from equity-settled share-based payment transactions	**6**	5

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 embedded value, cumulative cash generation over a three year period and, with respect to the 2012 and 2013 LTIPs only, total shareholder return ('TSR'). There are no cash settlement alternatives. The 2010 LTIP awards vested during the year. The 2011 award will vest on 12 April 2014, the 2012 award will vest on 2 April 2015 and the 2013 award will vest on 15 November 2016. The 2010, 2011 and 2012 LTIP awards were increased during the year 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19. SHARE-BASED PAYMENT CONTINUED

19.2 SHARE-BASED PAYMENT SCHEMES IN ISSUE CONTINUED

Save As You Earn ('SAYE')

The SAYE scheme allows participating employees to save up to £250 each month over a period of either 3 or 5 years.

Under the SAYE 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 included expected share price volatility and expected dividend yield.

The 2010, 2011 and 2012 SAYE awards were increased during the year as a result of the equity raising on 21 February 2013 (see note 16).

The following information was relevant in the determination of the fair value of the 2010 SAYE, 2011 SAYE, 2012 SAYE and 2013 SAYE awards in the year:

	2013 SAYE	2012 SAYE	2011 SAYE	2010 SAYE
Share price (p)	**630.0**	524.5	669.5	650.0
Exercise price (£)	**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
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	**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
Dividend yield (%)	**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 are expected to vest on 6 April 2014, the 2012 DBSS are expected to vest on 2 April 2015 and the 2013 DBSS are expected to vest on 27 March 2016. The 2011 and 2012 DBSS awards were increased during the year 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:

	No of share options 2013		
	LTIP	**SAYE**	**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**

	No of share options 2012				
	LTIP	SAYE	DBSS	Deferred cash plan	2009 BSP
Outstanding at the beginning of the year	2,558,480	1,128,617	88,729	229,370	20,000
Granted during the year	1,608,102	473,463	112,668	–	–
Forfeited during the year	(303,143)	(179,504)	–	–	–
Cancelled during the year	–	(412,625)	–	–	–
Exercised during the year	–	–	(16,259)	(229,370)	(20,000)
Outstanding at the end of the year	3,863,439	1,009,951	185,138	–	–

The weighted average fair value of options granted during the year was £5.93 (2012: £4.53).

The weighted average share price at the date of exercise for the rewards exercised is £6.88 (2012: £5.11).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2013 is 1.5 years (2012: 1.6 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).

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**

2012

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January	407	307	714
Profit/(loss) for the year	20	(3)	17
Dividends paid	–	(23)	(23)
Coupon paid, net of tax relief	(19)	–	(19)
Shares in subsidiaries subscribed for by non-controlling interests	–	35	35
At 31 December	408	316	724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20. NON-CONTROLLING INTERESTS CONTINUED

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.

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 rules of the PRA, the Notes also meet the conditions to be included in Tier 1 capital in the calculation of the group capital resources. As the Notes are not held by the Company, these 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 by the issue of securities ('ACSM instruments') by either PGH1 or a special purpose subsidiary of PGH1 established for the purpose of issuing ACSM instruments and which are guaranteed by PGH1. The obligations of PGH1 in respect of such securities will be subordinated to and rank or be expressed to rank junior to the Notes as to rights to payments of interest and participation in the assets of PGH1 in a winding-up and shall comply with the then current requirements of the PRA in relation to Tier 1 capital. ACSM instruments will in the first instance be offered to related parties (as defined in the Terms and Conditions of the Notes as amended by the Supplemental Trust Deed dated 30 July 2008) and to third parties if not purchased by related parties. In the event that neither such related parties nor third parties will purchase the required ACSM instruments, then PGH2 is required to use its best endeavours to raise such funds as are deemed necessary to purchase the required amounts of ACSM instruments.

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 2013, the 2013 coupon was settled in full by PGH1, other than to two companies within the Group which waived their right to receive that coupon.

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 58% (2012: 62%) of the issued share capital of UKCPT.

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), 1(e) and 1(s).

	Gross liabilities 2013 £m	**Reinsurers' share 2013 £m**	Gross liabilities 2012 £m	Reinsurers' share 2012 £m
Life assurance business:				
Insurance contracts	**31,960**	**2,850**	39,806	8,287
Investment contracts with DPF	**10,769**	**1**	11,328	–
	42,729	**2,851**	51,134	8,287
Less amounts classified as held for sale (note 4)	**–**	**–**	(5,404)	(5,083)
	42,729	**2,851**	45,730	3,204
Amounts due for settlement after 12 months	**39,126**	**2,775**	41,375	3,054

	Gross liabilities 2013 £m	**Reinsurers' share 2013 £m**	Gross liabilities 2012 £m	Reinsurers' share 2012 £m
At 1 January	**45,730**	**3,204**	51,800	3,153
Amounts classified as held for sale	**5,404**	**5,083**	–	–
	51,134	**8,287**	51,800	3,153
Premiums	**1,333**	**(11)**	1,609	5,173
Claims	**(4,830)**	**(464)**	(5,166)	(364)
Other changes in liabilities	**86**	**(235)**	2,912	332
Foreign exchange adjustments	**17**	**7**	(21)	(7)
Effect of portfolio transfers	**(5,011)**	**(4,733)**	–	–
	42,729	**2,851**	51,134	8,287
Less amounts classified as held for sale (note 4)	**–**	**–**	(5,404)	(5,083)
At 31 December	**42,729**	**2,851**	45,730	3,204

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).

	2013 £m	2012 £m
At 1 January	**893**	848
Transfer from income statement	**77**	45
At 31 December	**970**	893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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	
	2013 £m	2012 £m	2013 £m	2012 £m
Limited recourse bonds 2022 7.59% (note a)	86	85	95	103
Property Reversions loan (note b)	186	194	186	194
£80 million facility agreement (note c)	80	80	80	80
£150 million term facility (note d)	150	150	150	150
Total policyholder borrowings	502	509	511	527
£200 million 7.25% unsecured subordinated loan (note e)	151	143	205	173
£2,260 million syndicated loan facility (note f)	1,182	1,852	1,182	1,797
£100 million PIK notes and facility (note g)	121	116	118	98
£75 million secured loan note (note h)	76	75	49	35
£425 million loan facility (note h)	327	351	315	322
Total shareholder borrowings	1,857	2,537	1,869	2,425
Total borrowings	2,359	3,046	2,380	2,952
Amount due for settlement after 12 months	2,183	2,821		

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 £105 million (2012: £116 million) have an average remaining life of 5 years maturing in 2022. NPLL has provided collateral of £44 million (2012: £50 million) to provide security to the holders of the NPLL recourse bonds in issue. During 2013, repayments totalling £11 million were made.

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 2013, repayments totalling £22 million were made. Note 34 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 2013 and 2012.

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 2013, the facility was fully drawn down (2012: 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 statement of financial position. The fair value adjustments, which were recognised on acquisition, will unwind over the remaining life of these subordinated loan notes.

f. 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 has been treated as an extinguishment and has been replaced in the statement of consolidated financial position by a new financial liability. Arrangement and structuring fees of £21 million associated with this new financial liability have been shown in the consolidated income statement.

The terms of this new facility are:

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

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

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

(i) 2.25% per annum after 31 December 2017 if the option to extend the final maturity date to 30 June 2019 is exercised; and
(ii) 0.5% per annum if additional target repayments of £60 million per annum do not occur. The additional interest charge applies from the end of the period when the repayment was due until the repayment has been made.

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

During 2013, scheduled repayments of £60 million (2012: £125 million), target repayments of £60 million and voluntary repayments of £100 million (2012: £15 million) were made in addition to the £450 million.

g. 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 accrues on the PIK notes and facility at LIBOR plus a margin of 2% unless an election is made by PGH (MC1) Limited or PGH (MC2) Limited to capitalise the interest, in which case the margin increases to 3.5%. During 2013, interest of £5 million (2012: £5 million) was capitalised on the PIK notes and facility. The final maturity date on the PIK notes and facility is 30 June 2019.

h. 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 is repayable over the period from 30 June 2011 to 30 June 2016, attracting interest at LIBOR plus a margin of 1.25%. The £75 million secured C loan notes are repayable 15 years after amendment and attract interest at LIBOR plus a margin of 1.00%.

The borrowings under the £425 million facility are secured by first fixed and floating charges over all of the assets and undertakings of PGH (LCA) Limited and PGH (LCB) Limited (including their respective 50% shareholdings in Phoenix Life Holdings Limited ('PLHL'), all real estate, book debts, bank accounts, investments and other assets).

During the year, a scheduled repayment of £24 million (2012: £24 million) was made on the £425 million loan facility and interest of £1 million (£2012: £2 million) was capitalised on the £75 million secured C loan notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 2013 £m	**Liabilities 2013 £m**	Assets 2012 £m	Liabilities 2012 £m
Warrants over shares in Phoenix Group Holdings	**–**	**5**	–	3
Forward currency	**827**	**780**	710	678
Credit default options	**3**	**6**	10	4
Credit linked note	**–**	**–**	32	–
Contract for differences	**–**	**–**	2	–
Interest rate swaps	**668**	**1,318**	2,307	2,314
Swaptions	**243**	**–**	383	–
Inflation swaps	**33**	**4**	19	6
Equity options	**119**	**2**	196	–
Stock index futures	**18**	**33**	4	20
Fixed income futures	**24**	**8**	2	1
Currency futures	**13**	**–**	–	–
	1,948	**2,156**	3,665	3,026

The amount recoverable after one year is £1,003 million (2012: £2,829 million). The amount payable after one year is £1,229 million (2012: £2,222 million).

24.2 Warrants over shares

On 1 January 2013, the Company had in issue the following warrants:

	IPO warrants Number	**Lenders' warrants Number**	**Royal London warrants Number**
At 1 January 2012, 31 December 2012 and 31 December 2013	**8,169,868**	**5,000,000**	**12,360,000**

The fair value of warrants over shares are as follows:

	Liabilities 2013 £m	Liabilities 2012 £m
Warrants over shares in Phoenix Group Holdings	**5**	3

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 (2012: 1.027873) ordinary shares per IPO warrant, for an exercise price of €10.70 (2012: €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 will expire at the close of trading on the LSE on 3 September 2014, or earlier upon redemption or liquidation. The Company may call the warrants for redemption:

– in whole but not in part;

– at a price of €0.01 per warrant;

– upon not less than 30 days' prior written notice of redemption to each warrant holder;

– if, and only if, the reported last sale price of the share equals or exceeds €13.75 per share for any 20 trading days within a period of 30 consecutive trading days ending on the third business day prior to the notice of redemption to warrant holders. On 2 September 2009, the threshold of €13.75 was increased to €16.50. At 31 December 2012, the threshold was reduced to €16.05 following an issue of ordinary shares by the Company under a scrip dividend in 2012; and

– the foregoing conditions are satisfied and the Company issues notice of redemption of the warrants, each warrant holder shall be entitled to exercise their warrant prior to the scheduled redemption date. However, the price of the shares may fall below the redemption trigger price or the warrant exercise price after the redemption notice is issued.

If the Company calls the warrants for redemption as described above, it will have the option to require any holder that wishes to exercise its warrant to do so on a cashless basis.

The IPO warrants are listed and were previously valued using the warrant price quoted on the LSE for the Company. Due to the relatively low number of IPO warrants in issue, they are thinly traded and the quoted price is not considered to be the best indicator of their fair value. As a result the IPO warrants have been valued using an extended Black-Scholes valuation model. The key assumptions used to ascertain a value as at 31 December 2013 are 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.

At 31 December 2013, the IPO warrants were valued at £2 million (2012: £1 million).

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 2013 the terms of Lenders' warrants entitled the holders to purchase 1.027873 (2012: 1.027873) ordinary shares per Lenders' warrant for an exercise price of £14.59 (2012: £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 (2012: £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 are the same as for the IPO warrants (see above). The value of the warrants at the year end was £300,000 (2012: £200,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. DERIVATIVES CONTINUED

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 (2012: 1.027873) ordinary shares per Royal London warrant for an exercise price of €10.70 (2012: €10.70).

The exercise period terminates on the first to occur of:

– 5th anniversary of the date issued;

– date fixed for the redemption of the warrants; and

– liquidation of the Company.

All outstanding 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 €16.50 on each of 20 consecutive trading days. At 31 December 2012, the threshold was reduced to €16.05 following an issue of ordinary shares by the Company under a scrip dividend in 2012. 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 plus accrued interest of any Global Debt (e.g. the PIK facility) 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.

The Royal London warrants are not traded in an active market and have therefore been valued using an extended Black-Scholes valuation model.

The key assumptions used to ascertain a value as at 31 December 2013, are as for the IPO warrants (see before). The value of the warrants at the year end was £3 million (2012: £2 million).

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).

2013

	Leasehold properties £m	Staff related £m	Known incidents £m	Other £m	Total £m
At 1 January	**22**	**27**	**5**	**13**	**67**
Additions in the year	2	10	–	2	14
Utilised during the year	(5)	(4)	(4)	(2)	(15)
Released during the year	(10)	–	–	(3)	(13)
At 31 December	**9**	**33**	**1**	**10**	**53**

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% (2012: between 2.6% and 5.5%) and it is expected that the provision will be utilised over the next five years (2012: 12 years).

Staff related provisions include provisions for Ignis Asset Management long-term incentive plans of £18 million (2012: £13 million), for unfunded pensions of £6 million (2012: £6 million) and private medical insurance costs for former employees of £3 million (2012: £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).

	2013 £m	2012 £m
Current tax:		
Current tax receivables	**6**	6
Current tax payable	**(107)**	(71)
Deferred tax:		
The balances at 31 December comprise:		
Deferred tax liabilities	**(373)**	(409)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. TAX ASSETS AND LIABILITIES CONTINUED

MOVEMENT IN DEFERRED TAX ASSETS/(LIABILITIES)

2013	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Disposals in 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**	**(6)**	**–**	**–**	**(3)**
Pension scheme deficit	**97**	**(15)**	**(12)**	**–**	**70**
Accelerated capital allowances	**17**	**(3)**	**–**	**–**	**14**
Unpaid interest	**62**	**(1)**	**–**	**–**	**61**
Acquired in-force business	**(501)**	**96**	**–**	**(23)**	**(428)**
Customer relationships	**(88)**	**15**	**–**	**–**	**(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)	**71**	**(12)**	**(23)**	**(373)**

2012	1 January £m	Recognised in consolidated income statement Restated £m	Recognised in other comprehensive income Restated £m	Transferred to held for sale £m	31 December £m
Trading losses	37	70	–	–	107
Expenses and deferred acquisition costs carried forward	14	(9)	–	–	5
Provisions and other temporary differences	3	–	–	–	3
Pension scheme deficit	–	(16)	113	–	97
Accelerated capital allowances	18	(1)	–	–	17
Unpaid interest	34	28	–	–	62
Acquired in-force business	(593)	69	–	23	(501)
Customer relationships	(100)	12	–	–	(88)
Surplus within the non-profit funds	(62)	62	–	–	–
IFRS transitional adjustments	–	(88)	–	–	(88)
Adjustment for insurance policies held with related parties in respect of the PGL pension scheme	(24)	–	1	–	(23)
	(673)	127	114	23	(409)

The Finance Act 2012 set the rate of corporation tax at 23% from 1 April 2013 and further reductions to 21% from 1 April 2014 and 20% from 1 April 2015 were set by the Finance Act 2013. 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 will be amortised over a 10 year period on a straight-line basis commencing in 2013 and ending in 2022, as the IFRS tax transitional adjustment is brought into account in the current year tax computations.

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

	2013 £m	2012 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	**50**	52
Excess expenses and deferred acquisition costs	**2**	–
Provisions and other temporary differences	**9**	7
Deferred tax assets not recognised on capital losses[1]	**121**	229

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.

	2013 £m	2012 £m
Payables related to direct insurance contracts	**443**	435
Less amounts classified as held for sale (note 4)	**(48)**	(42)
	395	393
Amount due for settlement after 12 months	**–**	–

The general insurance element amounts to £48 million (2012: £42 million) which is 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.

	2013 £m	2012 £m
Accruals and deferred income	**139**	171
Less amounts classified as held for sale (note 4)	**–**	(5)
	139	166
Amount due for settlement after 12 months	**–**	3

29. OTHER PAYABLES

This note analyses the Group's other payables at the end of the year.

	2013 £m	2012 £m
Investment broker balances	**248**	363
Other payables	**104**	151
	352	514
Less amounts classified as held for sale (note 4)	**(1)**	(5)
	351	509
Amount due for settlement after 12 months	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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:

	2013 £m	2012 £m
Pearl Group Staff Pension Scheme		
Economic deficit	**(53)**	(114)
Minimum funding requirement obligation	**(84)**	(83)
Net defined benefit liability	**(137)**	(197)
PGL Pension Scheme		
Economic surplus (including £313 million (2012: £285 million) available as a refund on a winding-up of the Scheme)	**368**	344
Adjustment for insurance policies eliminated on consolidation	**(95)**	(95)
Net economic surplus	**273**	249
Minimum funding requirement obligation	**(17)**	(25)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(96)**	(87)
Net defined benefit asset	**160**	137

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 (2012: £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 2013, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service 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 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. The value of the security claim granted under the share charges is, since 30 June 2012, capped at the lower of £600 million and 60% of the Pearl Scheme deficit (calculated on a basis linked to UK government securities) revalued every three years thereafter. Immediately following the repayment of the £425 million loan facility and £75 million of secured C loan notes (see note 23) the value of the security claim increases to 100% of the Pearl Scheme deficit (on a basis linked to UK government securities) revalued every three years, subject to a £600 million cap; and
- covenant tests relating to the embedded value of certain companies within the Group.

An additional liability of £84 million (2012: £83 million) has been recognised, reflecting a charge on any refund of the resultant IAS 19 surplus of £241 million (2012: £237 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 £59 million (2012: £81 million) has also been recognised to reflect tax relief at a rate of 20% (2012: 23%) that is expected to be available on the contributions, once paid into the scheme.

Contributions totalling £68 million are expected to be paid into the scheme in 2014. The £70 million due by 30 September 2014 has been 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, further details of which are included on page 151.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. PENSION SCHEMES CONTINUED

30.1 PEARL GROUP STAFF PENSION SCHEME CONTINUED

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

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 settlements	(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)

2012

	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 2012	1,865	(1,809)	(19)	–	37
Current service cost	–	(1)	–	–	(1)
Interest income/(expense)	89	(85)	(1)	–	3
Past service cost	–	3	–	–	3
Included in profit or loss	89	(83)	(1)	–	5
Remeasurements:					
Return on plan assets excluding amounts included in interest income	(21)	–	–	–	(21)
Loss from change in demographic assumptions	–	(66)	–	–	(66)
Loss from change in financial assumptions	–	(91)	–	–	(91)
Experience losses	–	(24)	–	–	(24)
Change in provision for tax on economic surplus available as a refund	–	–	20	–	20
Change in minimum funding requirement obligation	–	–	–	(83)	(83)
Included in other comprehensive income	(21)	(181)	20	(83)	(265)
Employer's contributions	26	–	–	–	26
Benefit payments	(89)	89	–	–	–
At 31 December 2012	1,870	(1,984)	–	(83)	(197)

In May 2013, the Group commenced an enhanced transfer value ('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 has been recognised in the consolidated financial statements in 2013. As at 31 December 2013, ETVs of £72 million have 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 has been recognised in the consolidated income statement.

In November 2011, following formal consultation, the Group carried out a pension increase exchange ('PIE') exercise where existing in-scope pensioners were offered the option to exchange future non-statutory pension increases for benefits accrued before 6 April 1997 for a higher, non-increasing pension, thereby reducing longevity and inflation risk for the Group. The exercise was completed in 2012 and in that year a reduction in scheme liabilities of £3 million was recognised in the consolidated financial statements as a negative past service cost in the consolidated income statement. There is no financial impact in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. PENSION SCHEMES CONTINUED

30.1 PEARL GROUP STAFF PENSION SCHEME CONTINUED

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2013		2012	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Hedging portfolio	**1,646**	**24**	1,246	(1)
Equities	**110**	**–**	98	–
Debt securities	**930**	**–**	642	–
Properties	**178**	**178**	159	159
Private equities	**35**	**35**	35	35
Hedge funds	**36**	**36**	103	103
Cash and other	**57**	**–**	135	–
Obligations for repayment of stock lending collateral received	**(1,137)**	**–**	(548)	–
	1,855	**273**	1,870	296

The actual return on plan assets was £75 million (2012: £68 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 and 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: 41% (2012: 43%)

– Retirees: 59% (2012: 57%)

The weighted average duration of the defined benefit obligation at 31 December 2013 is 17 years (2012: 16 years).

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out in the table below:

	2013 %	2012 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**3.15**	2.90
Rate of increase for deferred pensions (CPI)	**2.35**	2.25
Discount rate	**4.50**	4.50
Inflation – RPI	**3.35**	3.00
Inflation – CPI	**2.35**	2.25

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 29.8 years and 32.9 years for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions as at 31 December 2013, is shown below:

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	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 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.

30.2 PGL PENSION SCHEME

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

Scheme details

Defined contribution scheme

Contributions in the year amounted to £5 million (2012: £4 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 2013, 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 £55 million at 31 December 2013 and contributions totalling £15 million are expected to be paid into the scheme in 2014.

In accordance with an agreement dated November 2005, certain of the Group's with-profit funds have indemnified the shareholders in respect of contribution calls equal to their share of the costs of changes in longevity assumptions. Following completion of the triennial funding valuation as at 30 June 2012, a process has commenced to determine the quantum of the contribution to be received from the with-profit funds in this regard.

An additional liability has been recognised of £17 million (2012: £25 million) reflecting a charge on any refund of the resultant IAS 19 surplus of £51 million (2012: £71 million) that would arise as a result of the minimum funding requirement. A deferred tax asset of £10 million (2012: £16 million) has also been recognised to reflect tax relief at a rate of 20% (2012: 23%) that is expected to be available on the contributions, once paid into the scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. PENSION SCHEMES CONTINUED

30.2 PGL PENSION SCHEME CONTINUED

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

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 requirements 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

2012

	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 2012	1,660	(1,234)	(149)	–	277
Interest income/(expense)	80	(59)	(7)	–	14
Past service cost	–	1	–	–	1
Gains and losses on settlements	(37)	30	–	–	(7)
Administrative expenses	(3)	–	–	–	(3)
Included in profit or loss	40	(28)	(7)	–	5
Remeasurements:					
Return on plan assets excluding amounts included in interest income	(65)	–	–	–	(65)
Loss from change in demographic assumptions	–	(10)	–	–	(10)
Loss from change in financial assumptions	–	(82)	–	–	(82)
Experience gains/(losses)	–	(63)	–	–	(63)
Change in provision for tax on economic surplus available as a refund	–	–	69	–	69
Change in minimum funding requirement obligation	–	–	–	(25)	(25)
Included in other comprehensive income	(65)	(155)	69	(25)	(176)
Employer's contributions	31	–	–	–	31
Benefit payments	(57)	57	–	–	–
At 31 December 2012	1,609	(1,360)	(87)	(25)	137

In November 2011, following formal consultation, the Group carried out a PIE exercise, the same as that outlined for the Pearl Scheme. The financial effects of the exercise were treated in the same way as for the Pearl Scheme. The exercise was completed in 2012 and in that year a reduction in scheme liabilities of £2 million was recognised in the consolidated financial statements as a negative past service cost in the consolidated income statement. There was no financial impact of this exercise in the current year.

In November 2011, the Group commenced an Enhanced Transfer Value ('ETV') exercise which offered in-scope deferred members of the PGL Pension Scheme the option to take an Equivalent Cash Transfer Value to exit the Scheme. The financial effect of all completed transfers was recognised in the consolidated financial statements in 2012. As at 31 December 2012, ETVs of £36 million had been paid out, reducing scheme assets, and there was a resulting reduction in the scheme liabilities of £29 million. A net settlement cost of £7 million was recognised in the consolidated income statement. There was no financial impact of this exercise in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. PENSION SCHEMES CONTINUED

30.2 PGL PENSION SCHEME CONTINUED

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2013		2012	
	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	**1,199**	**–**	1,214	–
Index-linked bonds	**508**	**–**	297	–
Corporate bonds	**–**	**–**	423	–
Swaps	**50**	**–**	–	–
Properties	**165**	**165**	158	158
Hedge funds	**76**	**76**	69	69
Cash and other	**645**	**–**	455	–
Obligations for repayment of stock lending collateral received	**(1,004)**	**–**	(1,007)	–
	1,639	**241**	1,609	227

The actual return on plan assets was £66 million (2012: £15 million).

The economic value of the PGL Pension Scheme assets as at 31 December 2013, amounted to £1,734 million (2012: £1,704 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, resulting in reported assets of the PGL Pension Scheme as at 31 December 2013 of £1,639 million (2012: £1,609 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: 37% (2012: 37%)

– Retirees: 63% (2012: 63%)

The weighted average duration of the defined benefit obligation at 31 December 2013 is 16 years (2012: 16 years).

Principal assumptions

The principal financial assumptions of the PGL Pension Scheme are set out in the table below:

	2013 %	2012 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	**3.35**	3.00
Rate of increase for deferred pensions ('CPI')	**2.35**	2.25
Discount rate	**4.50**	4.50
Inflation – RPI	**3.35**	3.00
Inflation – CPI	**2.35**	2.25

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 42 retiring at age 62 is 28.4 years and 30.7 years for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions as at 31 December 2013 is shown below:

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	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 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.

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).

2013

	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	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	–	111	19	–	130
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

31. INTANGIBLE ASSETS CONTINUED

2012

	Goodwill £m	Acquired in-force business £m	Customer relationships £m	Present value of future profits £m	Total £m
Cost or valuation	115	2,213	445	23	2,796
At 1 January					
Amounts classified as held for sale (note 4)	(19)	(165)	–	–	(184)
At 31 December	96	2,048	445	23	2,612
Amortisation					
At 1 January	–	331	43	–	374
Charge for the year	–	122	18	–	140
Amounts classified as held for sale (note 4)	–	(27)	–	–	(27)
At 31 December	–	426	61	–	487
Carrying amount at 31 December	96	1,622	384	23	2,125
Amount recoverable after 12 months	96	1,511	366	23	1,996

GOODWILL

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 Ignis Asset Management business and 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 2018 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business.

Future cash flows have been valued using a discount rate of 10.8% (2012: 10.1%) for the Ignis Asset Management business and a discount rate of 8.4% (2012: 7.8%) 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 (2012: £39 million) and to the Ignis Asset Management segment is £57 million (2012: £57 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 first part of the customer relationships intangible 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 second part of the customer relationships intangible relates to the investment management contracts ('IMCs') held within Ignis Asset Management. These are further split into IMCs held with open-ended funds and institutional mandates. The open-ended IMCs had a value at acquisition of £130 million and an indefinite useful economic life ('UEL'). The reason for the indefinite UEL is that funds are open ended and indefinite in nature. An impairment review has been completed for these intangibles at the period end with an indefinite life and no impairment has arisen. Under this impairment review, value in use has been determined as the present value of future cash flows associated with the open-ended IMCs. The cash flows used in this calculation are consistent with those adopted by management in the Group's operating plan, with a declining growth rate assumed for the extended forecast period beyond the period of this plan. Future cash flows have been valued using a discount rate of 10.8% (2012: 10.1%). The institutional mandate IMCs had a value at acquisition of £18 million and a UEL of between five and seven years.

These IMC customer relationships have been allocated to the Ignis Asset Management segment.

The amortisation charge for customer relationships and other is presented separately in the consolidated income statement.

Other intangibles of £3 million relate to software costs capitalised during the year.

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 39.5.1. Revaluation of the present value of future profits is charged or credited to the consolidated income statement as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32. PROPERTY, PLANT AND EQUIPMENT

This note analyses the Group's tangible fixed assets which consists 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).

	2013 £m	2012 £m
Cost or valuation		
At 1 January	**46**	44
Additions	**2**	3
Disposals	**(6)**	(1)
At 31 December	**42**	46
Depreciation and impairment		
At 1 January	**(22)**	(16)
Charge for the year	**(3)**	(3)
Disposals	**6**	1
Impairment	**–**	(4)
At 31 December	**(19)**	(22)
Carrying amount		
At 31 December	**23**	24

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.

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:

	2013 £m
At 1 January	**15**
Depreciation recognised in profit or loss	**–**
Remeasurement recognised in other comprehensive income	**–**
At 31 December	**15**
Unrealised gains/(losses) 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).

	2013 £m	2012 £m
At 1 January	**1,727**	1,816
Additions	**19**	65
Improvements	**6**	9
Disposals	**(221)**	(78)
Gains/(losses) on adjustments to fair value (recognised in profit and loss)	**72**	(85)
At 31 December	**1,603**	1,727
Unrealised gains on properties held at end of period	**15**	

The property portfolio consists of a mix of commercial sectors, held by the life companies, £366 million (2012: £512 million), and by the Group's UK Commercial Property Trust, £1,046 million (2012: £1,016 million). The portfolio is spread geographically throughout the UK. Investment properties also include £191 million (2012: £199 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 balance sheet date. 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 described in note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. INVESTMENT PROPERTY CONTINUED

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.	£3.35 – £235 (£28.77)
		Capitalisation rate	3.59% - 13.3% (6.15%)
Commercial Investment Property (held by the UK Commercial Property Trust)	Yield methodology	Expected income per sq. ft.	Retail: £10 – £310 (£80)
			Office: £10 – £80 (£35) Industrial: £4 – £17 (£8) Leisure: £35 – £45 (£40)
		Capitalisation rate	Retail: 3.5% – 12.5% (6.2%) Office: 3.5% – 12.5% (5.6%) Industrial: 5.5% – 7.5% (6.6%) Leisure: 5.5% – 6.5% (5.8%)
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 £10 million (2012: £8 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £2 million (2012: £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).

Where we are giving disclosures in the IFRS financial statements for the first time in accordance with IFRS 13, comparatives are not required and have not been provided, except where previously disclosed on a voluntary basis in prior periods.

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 2013:

2013

	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	1,948	1,003	1,948
Designated upon initial recognition:			
Equities[1]	11,311	–	11,311
Fixed and variable rate income securities	35,312	25,973	35,312
Collective investment schemes[1]	6,395	–	6,395
	56,943		56,951
Less amounts classified as held for sale (note 4)	(55)	–	(55)
Total financial assets	56,888		56,896

	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:			
Designated upon initial recognition:			
Borrowings	186	186	186
Net asset value attributable to unitholders[1]	5,309	–	5,309
Investment contract liabilities[1]	8,578	–	8,578
Held for trading – derivatives	2,156	1,229	2,156
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	26,071		18,808

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34. FINANCIAL INSTRUMENTS CONTINUED

34.1 FAIR VALUES CONTINUED

2012

	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	1,914	221	1,912
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	3,665	2,829	3,665
Designated upon initial recognition:			
Equities[1]	11,005	–	11,005
Fixed and variable rate income securities	40,945	29,074	40,945
Collective investment schemes[1]	6,052	–	6,052
	63,581		63,579
Less amounts classified as held for sale (note 4)	(61)	–	(61)
Total financial assets	63,520		63,518

	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:			
Designated upon initial recognition:			
Borrowings	194	194	194
Net asset value attributable to unitholders[1]	4,671	–	4,671
Investment contract liabilities[1]	8,096	–	8,096
Held for trading – derivatives	3,026	2,222	3,026
Financial liabilities measured at amortised cost:			
Borrowings	2,852	2,627	2,758
Deposits received from reinsurers	454	420	454
Obligations for repayment of collateral received	10,458	–	–
Total financial liabilities	29,751		19,199

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.

2013

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	54	1,894	–	1,948
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	10,409	149	753	11,311
Fixed and variable rate income securities	25,267	8,913	1,132	35,312
Collective investment schemes	5,214	1,065	116	6,395
	40,890	10,127	2,001	53,018
Less amounts classified as held for sale (note 4)	(55)	–	–	(55)
Total financial assets measured at fair value	40,889	12,021	2,001	54,911
Financial assets for which fair values are disclosed				
Loans and receivables at amortised cost	–	1,869	116	1,985
Total financial assets	40,889	13,890	2,117	56,896

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	2,113	3	2,156
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	5,212	–	97	5,309
	5,212	8,578	283	14,073
Total financial liabilities measured at fair value	5,252	10,691	286	16,229
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 for which fair values are disclosed	–	614	1,965	2,579
Total financial liabilities	5,252	11,305	2,251	18,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34. FINANCIAL INSTRUMENTS CONTINUED

34.2 FAIR VALUE HIERARCHY CONTINUED

2012

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	37	3,616	12	3,665
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	10,017	178	810	11,005
Fixed and variable rate income securities	28,997	11,448	500	40,945
Collective investment schemes	5,048	846	158	6,052
	44,062	12,472	1,468	58,002
Less amounts classified as held for sale (note 4)	(61)	–	–	(61)
Total financial assets measured at fair value	44,038	16,088	1,480	61,606

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

34.2.3 Level 3 financial instrument sensitivities

Included in Level 3 investments are two property investment structures with a value of £15 million (2012: £6 million) and £119 million (2012: £102 million) respectively.

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 (2012: £6 million) and the second investment by £23 million (2012: £25 million). A reduction in yields of 25bps would increase the value of the first investment by £9 million (2012: £9 million) and the second investment by £25 million (2012: £22 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 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.

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 a 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

2013

	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	**725**	**240**
Collective investment schemes	**243**	**–**

	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial liabilities measured at fair value		
Derivatives	–	**20**

2012

	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	276	686

There were no transfers of financial liabilities at fair value between Level 1 and Level 2 and between Level 2 and Level 1 in 2012.

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 1 to Level 2 in the period.

34.2.5 Movement in Level 3 financial instruments measured at fair value

2013

	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	810	(15)	50	(131)	39	–	753	2
Fixed and variable rate income securities	500	104	827	(665)	390	(24)	1,132	70
Collective investment schemes	158	10	1	(40)	1	(14)	116	10
	1,468	99	878	(836)	430	(38)	2,001	82
Total financial assets	1,480	87	878	(836)	430	(38)	2,001	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)/ losses on assets 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 to unitholders	70	7	94	(74)	–	–	97	3
	70	21	94	(96)	194	–	283	(12)
Total financial liabilities	73	25	94	(100)	194	–	286	(20)

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.

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 into Level 3 from Levels 1 and 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34. FINANCIAL INSTRUMENTS CONTINUED

34.2 FAIR VALUE HIERARCHY CONTINUED

Borrowings of £194 million were transferred from Level 2 to Level 3 during the year as a significant model input is no longer considered market observable.

2012

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

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

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 2013 (2012: 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.

2013

		Related amounts not offset			
Financial assets	**Gross and net amounts of recognised financial assets £m**	**Financial instruments received £m**	**Cash collateral received £m**	**Derivative liabilities £m**	**Net amount £m**
OTC derivatives	**1,890**	**35**	**541**	**1,315**	**(1)**
Exchange traded derivatives	**58**	**–**	**19**	**15**	**24**
Stock lending	**6,672**	**64**	**6,743**	**–**	**(135)**
Loans and receivables	**1,789**	**1,902**	**–**	**–**	**(113)**
Total	**10,409**	**2,001**	**7,303**	**1,330**	**(225)**

		Related amounts not offset			
Financial liabilities	**Gross and net amounts of recognised financial liabilities £m**	**Financial instruments pledged £m**	**Cash collateral pledged £m**	**Derivative assets £m**	**Net amount £m**
OTC derivatives	**2,116**	**438**	**350**	**1,315**	**13**
Exchange traded derivatives	**40**	**–**	**24**	**15**	**1**
Total	**2,156**	**438**	**374**	**1,330**	**14**

2012

		Related amounts not offset			
Financial assets	Gross and net amounts of recognised financial assets £m	Financial instruments received £m	Cash collateral received £m	Derivative liabilities £m	Net amount £m
OTC derivatives	3,619	245	1,340	1,916	118
Exchange traded derivatives	46	–	1	2	43
Stock lending	9,179	83	9,269	–	(173)
Loans and receivables	1,683	1,785	–	–	(102)
Total	14,527	2,113	10,610	1,918	(114)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34. FINANCIAL INSTRUMENTS CONTINUED

34.3 COLLATERAL ARRANGEMENTS CONTINUED

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 £35 million (2012: £245 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 2013 are set out below.

	OTC derivatives	
	2013 £m	2012 £m
Financial assets	**541**	1,340
Financial liability	**541**	1,337

The maximum exposure to credit risk in respect of OTC derivative assets is £1,890 million (2012: £3,619 million) of which credit risk of £1,856 million (2012: £3,492 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 £58 million (2012: £46 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 it 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 2013, in respect of OTC derivative liabilities of £2,116 million (2012: £3,002 million), amounted to £788 million (2012: £1,048 million).

34.3.3 Stock lending collateral arrangements

The Group lends listed financial assets held in its investment portfolio to other institutions. 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 £64 million (2012: £83 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 2013, is £6,743 million (2012: £9,269 million) and £6,743 million (2012: £9,249 million) respectively.

The maximum exposure to credit risk in respect of stock lending transactions is £6,672 million (2012: £9,179 million) of which credit risk of £6,672 million (2012: £9,179 million) is mitigated through the use of collateral arrangements.

34.3.4 Loans and receivables collateral arrangements

The Group has invested into Tri-party loans with Euroclear, a financial services company, whereby it lends cash to other reputable institutions. The cash on loan is 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 is £1,789 million as at 31 December 2013 (2012: £1,683 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 amounts to £1,902 million (2012: £1,785 million).

The maximum exposure to credit risk in respect of these loan transactions is £1,789 million (2012: £1,683 million) of which credit risk of £1,789 million (2012: £1,683 million) is mitigated through the use of collateral arrangements.

34.3.5 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. OTHER RECEIVABLES

This note analyses the Group's other receivables.

	2013 £m	2012 £m
Investment broker balances	**253**	331
Other debtors	**64**	108
Cash collateral pledged	**422**	–
	739	439
Amount recoverable after 12 months	**–**	–

During the year, the Group updated its presentation of cash collateral pledged where the Group does not retain the right to receive contractual cash flows and now discloses all such balances in other receivables. Cash collateral pledged was previously included in cash or offset against obligations for repayment of collateral received.

36. 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).

	2013 £m	2012 £m
Bank and cash balances	**1,193**	1,764
Short-term deposits (including demand and time deposits)	**8,031**	7,264
	9,224	9,028

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 £8,895 million (2012: £8,552 million) are primarily held for the benefit of policyholders and so are not generally available for use by the owners.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

37. CASH FLOWS FROM OPERATING ACTIVITIES

This note gives further details behind the 'cash generated/(utilised) by operations' figure in the statement of consolidated cash flows.

	2013 £m	2012 Restated £m
Profit for the year before tax	**190**	342
Non-cash movements in profit for the year before tax		
Fair value (gains)/losses on:		
Investment property	**(72)**	85
Financial assets	**(299)**	(1,445)
Change in fair value of borrowings	**36**	11
Depreciation of property, plant and equipment	**3**	3
Impairment of owner occupied property	**–**	4
Amortisation of intangible assets	**130**	140
Change in present value of future profits	**(9)**	–
Change in unallocated surplus	**77**	45
Share-based payment charge	**6**	5
Interest expense on borrowings	**230**	215
Net interest expense/(income) on Group defined benefit pension scheme asset/liability	**1**	(17)
Gain on transfer of business	**(42)**	–
Other losses on pension schemes	**12**	7
Decrease in investment assets	**6,858**	7,082
Decrease in reinsurance assets	**349**	156
Decrease in insurance contract and investment contract liabilities	**(2,519)**	(6,262)
Decrease in deposits received from reinsurers	**(69)**	(18)
Decrease in obligation for repayment of collateral received	**(3,174)**	(2,547)
Net increase in working capital	**(698)**	(97)
Cash generated/(utilised) by operations	**1,010**	(2,291)

38. 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 (previously FSA).

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	2013 £m	2012 £m
Total IFRS equity attributable to owners of the parent[1]		**1,909**	1,658
Adjustments between IFRS equity attributable to owners of the parent and MCEV net worth[2]		**(1,788)**	(1,913)
MCEV value of in-force business[2]		**2,257**	2,377
Group MCEV		**2,378**	2,122
Gross shareholder debt:			
50% of the Perpetual Reset Capital Securities given their hybrid nature	20	**204**	204
Shareholder borrowings	23	**1,857**	2,537
Difference between IFRS and MCEV carrying values of shareholder borrowings		**200**	112
Gross MCEV		**4,639**	4,975

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 43.

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 position statement shown above 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 position statement includes these subsidiaries in full. This difference and other adjustments amount to a reduction of £905 million (2012: £916 million) in Phoenix Life available capital resources of £6,290 million (estimated) (2012 (actual): £6,532 million) compared with PLHL Group Capital Resources of £5,385 million (estimated) (2012 (actual): £5,616 million). Further detail of the PLHL IGD position (unaudited) is provided in the business review on page 40.

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, a prudent assessment of the present value of future profits of Ignis Asset Management 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. Further detail of the PLHL ICA position is provided in the business review (unaudited) on page 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

38. CAPITAL STATEMENT CONTINUED

GROUP CAPITAL CONTINUED

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. 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.

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	954	17	–	971		
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	5,024	59	1,207	6,290		

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	123	954
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:							
Subordinated debt	–	–	–	–	–	–	–
Contingent loans	–	–	–	–	–	272	272
Total available capital resources	1,496	616	1,345	179	615	773	5,024

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 £450 million (2012: £645 million) subordinated debt attributed to the Phoenix Life segment of the Group, £250 million (2012: £445 million) is internal to the Group, comprising £250 million (2012: £250 million) provided to Phoenix Life Assurance Limited and £nil (2012: £195 million) provided to Phoenix & London Assurance Limited which was transferred to PLL on 1 January 2011 following a Part VII transfer. The remaining £200 million (2012: £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 Ignis Asset Management and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

38. CAPITAL STATEMENT CONTINUED
GROUP CAPITAL CONTINUED

2012

	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	–	–	1,822	1,822	(605)	1,217
Owners' funds held in long-term fund	–	441	–	441	–	441
Total owners' funds	–	441	1,822	2,263	(605)	1,658
Adjustments onto a regulatory basis:						
Unallocated surplus	883	10	–	893		
Adjustments to assets[1]	(31)	(214)	(604)	(849)		
Adjustments to liabilities[2]	3,687	(149)	42	3,580		
Other qualifying capital:						
Subordinated debt[3]	–	–	645	645		
Contingent loans	350	(55)	(295)	–		
Total available capital resources	4,889	33	1,610	6,532		

With-profit

2012

	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	304	138	221	35	86	99	883
Adjustments to assets[1]	(1)	(1)	(2)	–	(1)	(26)	(31)
Adjustments to liabilities[2]	984	569	985	206	615	328	3,687
Other qualifying capital:							
Contingent loans	–	–	–	–	–	350	350
Total available capital resources	1,287	706	1,204	241	700	751	4,889

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	55	48	227	(25)	36	(394)	(12)	(13)	(78)
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)
Valuation rate of interest	127	26	63	28	17	498	–	–	759
Adjustment for internal loans in excess of counterparty limits	–	–	–	–	–	–	(75)	(92)	(167)
Other	–	(1)	(5)	(40)	2	31	11	(53)	(55)
Total available capital resources at 31 December 2013	1,496	616	1,345	179	615	773	59	1,207	6,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

38. CAPITAL STATEMENT CONTINUED

GROUP CAPITAL CONTINUED

An analysis of the movement in available capital resources for the period 1 January 2012 to 31 December 2012, 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 2012	1,120	857	996	327	711	877	267	1,622	6,777
Regular surplus	118	–	(18)	35	8	60	142	–	345
Investment return	294	65	346	108	152	261	15	28	1,269
Cost of bonus	(135)	(198)	(94)	(56)	(93)	(84)	–	57	(603)
Changes in methodology and assumptions:									
Longevity	2	18	1	6	3	56	2	–	88
Expenses	5	12	(7)	(1)	57	31	2	–	99
Persistency	–	–	–	–	–	(7)	(5)	–	(12)
Other	–	–	–	–	–	–	(2)	–	(2)
Management actions:	17	(77)	(1)	–	21	(12)	70	–	18
Distributions made by Phoenix Life	–	–	–	–	–	–	–	(494)	(494)
New business and other factors:									
Intragroup capital movement	–	–	–	–	–	(107)	(383)	479	(11)
Valuation rate of interest	(136)	30	(19)	(178)	(159)	(324)	–	–	(786)
Adjustment for internal loans in excess of counterparty limits	–	–	–	–	–	–	(52)	(82)	(134)
Other	2	(1)	–	–	–	–	(23)	–	(22)
Total available capital resources at 31 December 2012	1,287	706	1,204	241	700	751	33	1,610	6,532

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. In addition, on-going work to standardise actuarial modelling and methodology has produced further changes to capital resources during the year to 31 December 2013.

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 2013, are dividend payments to Group entities and restructuring activities, notably the Part VII transfer to Guardian.

39. 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 44 to 50 of the Annual Report and Accounts.

39.1 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 assets and incurs insurance contract liabilities and financial liabilities. Financial 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 comprise investment contracts, borrowings for financing purposes, derivative liabilities and other payables.

39.2 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 efficient portfolio management or for risk hedging purposes, including the activities of the Group's Treasury function.

More detail on the Group's exposure to financial risk is provided in note 39.3 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 39.5 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.

39.3 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.

39.3.1 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 gilts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39. RISK MANAGEMENT CONTINUED

39.3 FINANCIAL RISK ANALYSIS CONTINUED

The Group holds £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 £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 £84 million (2012: £51 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 £81 million (2012: £72 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):

2013

	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	–	–	1,712	5	–	–	166	65	1,948
Fixed and variable rate income securities	8,471	16,174	4,907	3,947	486	554	612	111	35,262
Reinsurers' share of insurance contract liabilities	–	721	2,128	2	–	–	–	–	2,851
Cash and cash equivalents	2,144	6,316	588	52	5	–	–	119	9,224
	10,615	23,211	11,131	4,006	589	564	815	331	51,262

2012

	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	–	–	1,687	–	–	179	42	6	1,914
Derivatives	–	–	3,499	–	–	–	73	93	3,665
Fixed and variable rate income securities	24,956	6,502	4,461	3,495	376	527	443	132	40,892
Reinsurers' share of insurance contract liabilities	–	761	2,440	3	–	–	–	–	3,204
Cash and cash equivalents	5,409	1,990	1,408	66	6	3	–	146	9,028
	30,365	9,253	13,495	3,564	382	709	558	377	58,703

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 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.

It is also the Group's policy to maintain accurate and consistent internal 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 internal risk ratings are tailored to the various categories of assets and are derived in accordance with the Group's rating policy. The attributable risk ratings 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.

2013

	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**	–	–	–	–	**65**	**1,948**
Fixed and variable rate income securities	**35,151**	–	–	–	–	**111**	**35,262**
Reinsurers' share of insurance contract liabilities	**2,851**	–	–	–	–	–	**2,851**
Reinsurance receivables	**34**	–	–	–	–	–	**34**
Prepayments and accrued income	**460**	–	–	–	–	–	**460**
Other receivables	**739**	–	–	–	–	–	**739**
Cash and cash equivalents	**9,105**	–	–	–	–	**119**	**9,224**

2012

	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	1,895	–	–	–	13	6	1,914
Derivatives	3,572	–	–	–	–	93	3,665
Fixed and variable rate income securities	40,760	–	–	–	–	132	40,892
Reinsurers' share of insurance contract liabilities	3,204	–	–	–	–	–	3,204
Reinsurance receivables	64	–	–	–	–	–	64
Prepayments and accrued income	500	–	–	–	–	–	500
Other receivables	439	–	–	–	–	–	439
Cash and cash equivalents	8,882	–	–	–	–	146	9,028

Please refer to page 208 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 is now 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 asset manager fee which 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39. RISK MANAGEMENT CONTINUED

39.3 FINANCIAL RISK ANALYSIS CONTINUED

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).

39.3.2 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 £105 million (2012: an increase of £41 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 £142 million (2012: a decrease of £79 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 (2012: an increase of £12 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 £35 million (2012: a decrease of £12 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 £23 million (2012: £19 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 £23 million (2012: £20 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39. RISK MANAGEMENT CONTINUED

39.3 FINANCIAL RISK ANALYSIS CONTINUED

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 2013, since unhedged exposure to foreign currency was relatively low (2012: not considered significant).

39.3.3 Financial soundness risk

Financial soundness risk is a broad risk category encompassing financial control and reporting risk, capital management risk, liquidity and funding risk, and tax risk.

Financial control and reporting risk is defined as the failure of the Group to appropriately record, report or disclose financial information. The Group has exposure to financial control and reporting risk through the production of its Interim and Annual Report and Accounts. The Group's subsidiaries have exposure to financial control and reporting risk through their annual entity statutory and regulatory reporting.

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 38.

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 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 (over-the-counter) 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 which are either managed or overseen by Ignis Asset Management. 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:

2013

	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**	**10,773**	**25,899**	**2,454**	**42,729**
Investment contracts	**8,578**	–	–	–	**8,578**
Borrowings	**176**	**1,925**	**487**	**186**	**2,774**
Deposits received from reinsurers	**35**	**119**	**401**	–	**555**
Derivatives	**927**	**68**	**2,582**	–	**3,577**
Net asset value attributable to unitholders	**5,309**	–	–	–	**5,309**
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	**351**	–	–	–	**351**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39. RISK MANAGEMENT CONTINUED

39.3 FINANCIAL RISK ANALYSIS CONTINUED

2012

	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	4,354	12,159	26,645	2,572	45,730
Investment contracts	8,096	–	–	–	8,096
Borrowings	225	2,323	613	194	3,355
Deposits received from reinsurers	34	127	430	–	591
Derivatives	804	166	4,172	–	5,142
Net asset value attributable to unitholders	4,671	–	–	–	4,671
Obligations for repayment of collateral received	9,456	157	845	–	10,458
Reinsurance payables	47	–	–	–	47
Payables related to direct insurance contracts	393	–	–	–	393
Accruals and deferred income	163	2	–	1	166
Other payables	509	–	–	–	509

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.

39.4 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.

39.5 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;
Options	unanticipated changes in policyholder option exercise rates giving rise to increased claims costs; and
General insurance	higher than expected number of non-life claims on general insurance policies and occurrence of one or more large claims.

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.

The Group has a number of small books of general insurance which are currently classified as amounts held for sale. These have been closed to new business for a number of years and are in run-off. Further information can be found in note 4.

Due to the historic diversity of issued general insurance policies and taking into account the legal and regulatory environment for hazardous risks, it is possible that additional claims could emerge from long-tail unexpired risks albeit it is not possible to predict the quantum, location or timing of such occurrences.

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business and as a consequence of this uncertainty, the eventual costs of settlement of outstanding claims and unexpired risks can vary substantially from the estimates.

This general insurance business is managed by an experienced team of specialists who are responsible for all aspects of claims management, reserving and oversight of any activities undertaken by third parties. All such activity is carried out in accordance with the relevant regulations and industry standards.

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 £18 million (2012: £25 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 £18 million (2012: £25 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 £117 million (2012: £132 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 £116 million (2012: £130 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 £50 million (2012: £51 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 £44 million (2012: £47 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39. RISK MANAGEMENT CONTINUED

39.5 INSURANCE RISK CONTINUED

39.5.1 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:

	Increase/(decrease) in insurance liabilities 2013 £m	Increase/(decrease) in insurance liabilities 2012 £m
Change in longevity assumptions	**(6)**	(5)
Change in persistency assumptions	**6**	32
Change in expenses assumptions	**(7)**	(1)

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:

	2013 %	2012 %
Life policies	**2.38 – 2.77**	2.16 – 2.70
Pension policies	**2.91 – 3.67**	2.34 – 3.14

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 section 39.5.2 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 £1,575 million (2012: £2,054 million) and £29 million (2012: £31 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 £254 million (2012: £338 million) and £15 million (2012: £16 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39. RISK MANAGEMENT CONTINUED

39.5 INSURANCE RISK CONTINUED

39.5.2 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.

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

2012

	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	9,562	180	799	–
Deferred annuities – without guarantees	1,893	–	–	–
Immediate annuities	3,385	–	725	–
Unitised with-profit	1,198	9,179	4	–
Total pensions	16,038	9,359	1,528	–
Life:				
Immediate annuities	76	–	6	–
Unitised with-profit	721	773	2	–
Life with-profit	5,298	–	13	–
Total life	6,095	773	21	–
Other	2,073	7	144	–
Non-profit funds:				
Deferred annuities – with guarantees	50	–	–	–
Deferred annuities – without guarantees	615	6	–	–
Immediate annuities	6,834	–	1,170	–
Protection	652	–	279	–
Unit-linked	1,667	1,183	10	–
Other	378	–	52	–
	34,402	11,328	3,204	–

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39. RISK MANAGEMENT CONTINUED

39.5 INSURANCE RISK CONTINUED

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. 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(bb).

Operating lease rentals charged within administrative expenses amounted to £14 million (2012: £14 million).

The Group has commitments under non-cancellable operating leases as set out below:

	2013 £m	2012 £m
Not later than 1 year	**14**	10
Later than 1 year and not later than 5 years	**45**	41
Later than 5 years	**15**	28

The principal operating lease commitments concern office space located at Bothwell Street, Glasgow; St Vincent Street, Glasgow; Juxon House, London and Cheapside, London.

41. COMMITMENTS

This note analyses the Group's other commitments.

	2013 £m	2012 £m
To subscribe to private equity funds and other unlisted assets	**371**	286
To purchase, construct or develop investment property	**33**	46
For repairs, maintenance or enhancements of investment property	**3**	2
To acquire property, plant and equipment	**5**	5

42. 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 2013 £m	**Balances outstanding 2013 £m**	Transactions 2012 £m	Balances outstanding 2012 £m
Pearl Group Staff Pension Scheme				
Investment management fees	**0.2**	**0.1**	0.6	0.1
Payment of administrative expenses	**(3.6)**	**–**	(4.0)	–
	(3.4)	**0.1**	(3.4)	0.1
PGL Pension Scheme				
Investment management fees	**2.8**	**0.6**	2.4	0.4

The Pearl Scheme has invested in collective investment schemes that are controlled by the Group. At 31 December 2013 the Pearl Scheme held nil units (2012: 458,795 units) in the Ignis Systematic Strategies Fund, 59,138,904 units (2012: nil units) in the Castle Hill Enhanced Floating Rate Opportunities Limited Fund and nil units (2012: 121,909,177 units) in the Ignis Liquidity Fund. The value of these investments at 31 December 2013, was £nil million (2012: £70 million), £97 million (2012: £nil million) and £nil million (2012: £122 million) respectively.

Information on other transactions with the pension schemes is included in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

42. RELATED PARTY TRANSACTIONS CONTINUED

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:

	2013 £m	2012 £m
Salary and other short-term benefits	**4.2**	3.7
Equity compensation plans	**2.2**	2.2

Details of the shareholdings and emoluments of individual Directors are provided in the Remuneration report on pages 68 to 89.

43. 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.

44. GROUP ENTITIES

As at 31 December 2013, the principal subsidiary undertakings of the Group are as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
Insurance companies		
BA (GI) Limited (general insurance company) [1]	UK	Ordinary shares of £0.05
National Provident Life Limited (life assurance company)	UK	Ordinary shares of £1
Phoenix Life Assurance Limited (formerly Pearl Assurance Limited) (life assurance company)	UK	'A' ordinary shares of £0.05 'B' ordinary shares of £1
Phoenix Life Limited (life assurance company)	UK	Ordinary shares of £1
Scottish Mutual International Limited (life assurance company)	ROI	Ordinary shares of €1.25
Non-insurance companies		
Ignis Asset Management Limited (holding company)	UK	Ordinary shares of £1
Ignis Fund Managers Limited (unit trust management company)	UK	Ordinary shares of £1
Ignis Investment Services Limited (investment management company)	UK	Ordinary shares of £0.10
Impala Holdings Limited (holding company)	UK	'A' ordinary shares of £1 'B' ordinary shares of £1 'C' ordinary shares of £1 and 'D' ordinary shares of £1
Mutual Securitisation plc (finance company)	ROI	Quasi subsidiary
NP Life Holdings Limited (holding company)	UK	'A' ordinary shares of £1 and 'B' ordinary shares of £1
Opal Reassurance Limited (reassurance company)[2]	Bermuda	'A' ordinary shares of £1 'B' ordinary shares of £1 and Preference shares of £1
PGH (LCA) Limited (finance company)[2]	UK	Ordinary shares of £1
PGH (LCB) Limited (finance company)[2]	UK	Ordinary shares of £1
PGH (LC1) Limited (finance company)	UK	Ordinary shares of £1 and Preference shares of £1
PGH (LC2) Limited (finance company)	UK	Ordinary shares of £1 and Preference shares of £1
PGH (MC1) Limited (finance company)	UK	Ordinary shares of £1 and Preference shares of £1
PGH (MC2) Limited (finance company)	UK	Ordinary shares of £1 and Preference shares of £1
PGH (TC1) Limited (holding company)[2]	UK	'A' ordinary shares of £1 and Ordinary shares of £1 and Preference shares of £1
PGH (TC2) Limited (holding company)[2]	UK	'A' ordinary shares of £1 and Ordinary shares of £1 and Preference shares of £1
Pearl Group Holdings (No. 1) Limited (finance company)	UK	Ordinary shares of £0.05
Pearl Group Holdings (No. 2) Limited (holding company)	UK	Ordinary shares of £1
Pearl Life Holdings Limited (holding company)	UK	Ordinary shares of £1
Pearl Group Services Limited (management services company)	UK	Ordinary shares of £1
Pearl Group Management Services Limited (management services company)	UK	Ordinary shares of £1
Phoenix Life Holdings Limited (holding company)	UK	Ordinary shares of £1
UK Commercial Property Trust Limited (property fund)	Guernsey	57.7% of ordinary shares of £0.25

1 The Group completed the sale of its entire interest in BAGI on 18 March 2014 and accordingly its assets and liabilities were classified as held for sale as at 31 December 2013.

2 These subsidiary undertakings are directly owned by Phoenix Group Holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The information disclosed on the previous page is only in respect of those undertakings which materially affect the figures shown in the Group's consolidated financial statements. 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.

45. 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(ee).

On 25 March 2014, the Group and Standard Life Investments signed a disposal agreement under which Standard Life Investments agreed to acquire the entire issued share capital of Ignis Asset Management, in return for headline consideration of £390 million. The consideration will be payable in cash on completion subject to certain adjustments in relation to the regulatory capital resources of Ignis Asset Management at completion.

The divested businesses represent the entire Ignis Asset Management reportable segment disclosed in note 5. The net assets included within the statement of consolidated financial position as at 31 December 2013, in respect of Ignis Asset Management, were £241 million. The contribution of Ignis Asset Management to Group IFRS operating earnings before tax and Group IFRS earnings after tax for the year ended 31 December 2013, was £49 million and £37 million respectively.

Completion of the divestment is subject to the Company obtaining regulatory approval and the divestment is anticipated to complete by the end of the second quarter of 2014.

On 25 March 2014, the Board recommended a final dividend of 26.7p per share (2012: 26.7p per share) for the year ended 31 December 2013. Payment of the final dividend is subject to compliance with the processes set out in the Group's main credit facilities and shareholder approval at the AGM. The cost of this dividend has not been recognised as a liability in the financial statements for 2013 and will be charged to the statement of changes in equity in 2014.

In 2013, the Group agreed the sale of its entire interest in BAGI, which holds the Group's residual, non-core general insurance business with liabilities totalling £38 million (net of reinsurance), to National Indemnity Company. The sale was completed on 18 March 2014 following regulatory approval, giving rise to a marginally positive impact on the Group's MCEV and IFRS results which will be recognised in 2014.

As part of the Budget announced on 19 March 2014, the Government outlined proposals that would remove current restrictions on how people access their pension savings upon retirement. Whilst the guidance remains draft, such proposals have the potential to impact the levels of future new annuity business to be written by the Group.

The proposals are yet to be enacted in legislation, and therefore their impact remains uncertain. No adjustments have been made to the IFRS financial statements in this regard.

H Davies
C Bannister
J McConville
A Barbour
R P Azria
D Barnes
I Cormack
T Cross Brown
M Dale
I Hudson
D Woods

St Helier, Jersey
25 March 2014

PARENT COMPANY ACCOUNTS

PARENT COMPANY ACCOUNTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013 £m**	2012 £m
Net investment income	C	**105**	61
Net income		**105**	61
Administrative expenses	D	**(13)**	(6)
Total operating expenses		**(13)**	(6)
Total comprehensive income for the year attributable to owners		**92**	55

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 2013 and 2012.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	**2013 £m**	2012 £m
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	E	**–**	–
Share premium		**1,095**	982
Other reserves		**–**	5
Foreign currency translation reserve		**89**	89
Retained earnings		**257**	154
Total equity		**1,441**	1,230
Liabilities			
Financial liabilities			
Borrowings	F	**3**	3
Derivatives	G	**5**	3
Other amounts due to Group entities	R	**118**	38
Accruals and deferred income	H	**5**	–
Total equity and liabilities		**1,572**	1,274
Assets			
Investments in Group entities	I	**1,308**	1,018
Financial assets			
Collective investment schemes	J	**6**	–
Loans and receivables	K	**244**	232
Other amounts due from Group entities	R	**5**	8
Cash and cash equivalents	L	**9**	16
Total assets		**1,572**	1,274

The notes identified alphabetically on pages 201 to 207 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 109 to 196.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated by operations	M	**75**	3
Net cash flows from operating activities		**75**	3
Cash flows from investing activities			
Dividends received from subsidiaries		**50**	–
Advance to Group entities		**(11)**	–
Repayment of loan from Group entities		**29**	48
Interest received from Group entities		**19**	23
Capital contributions to subsidiaries		**(282)**	(2)
Net cash flows from investing activities		**(195)**	69
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		**233**	–
Ordinary share dividends paid		**(120)**	(72)
Net cash flows from financing activities		**113**	(72)
Net decrease in cash and cash equivalents		**(7)**	–
Cash and cash equivalents at the beginning of the year		**16**	16
Cash and cash equivalents at the end of the year	L	**9**	16

PARENT COMPANY ACCOUNTS CONTINUED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

	Share capital (note E) £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
Net income 2013	–	–	–	–	92	92
Total net income	–	–	–	–	92	92
Issue of ordinary share capital, net of associated commissions and expenses	–	233	–	–	–	233
Dividends paid on ordinary shares	–	(120)	–	–	–	(120)
Credit to equity for equity-settled share-based payments (note P)	–	–	–	–	6	6
Expired contingent rights	–	–	(5)	–	5	–
At 31 December 2013	–	1,095	–	89	257	1,441

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Share capital (note E) £m	Share premium £m	Other reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
At 1 January 2012	–	1,054	5	89	94	1,242
Net income 2012	–	–	–	–	55	55
Total net income	–	–	–	–	55	55
Dividends paid on ordinary shares	–	(73)	–	–	–	(73)
Shares issued in lieu of dividends	–	1	–	–	–	1
Credit to equity for equity-settled share-based payments (note P)	–	–	–	–	5	5
At 31 December 2012	–	982	5	89	154	1,230

The notes identified alphabetically on pages 201 to 207 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 109 to 196.

A. ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The financial statements of Phoenix Group Holdings have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and also provides the legally required information in accordance with Part 9, Book 2, of the Dutch Civil Code.

(B) ACCOUNTING POLICIES

The accounting policies in the separate financial statements are the same as those presented in notes 1(a) to 1(ee) to the consolidated financial statements on pages 109 to 119, except for the following:

(i) Investments in group entities

Investments 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.

B. SEGMENTAL ANALYSIS

The Company has one reportable segment, comprising its investment in and loans to/from its subsidiaries. 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 198 to 200.

Predominantly, all revenues from external customers is sourced in the UK.

Predominantly, all assets are located in the UK.

C. NET INVESTMENT INCOME

	2013 £m	2012 £m
Investment income		
Dividend income from other Group entities	**58**	8
Interest income from other Group entities	**49**	53
	107	61
Fair value losses		
Derivatives	**(2)**	–
	(2)	–
Net investment income	**105**	61

PARENT COMPANY ACCOUNTS CONTINUED

D. ADMINISTRATIVE EXPENSES

	2013 £m	2012 £m
Employee costs[1]	2	2
Professional fees	7	1
Office costs	1	–
Other	3	3
	13	6

1 In addition to the Non-Executive Board members, one employee was employed by Phoenix Group Holdings during the period (2012: one). Other Group employees are employed by subsidiaries of the Company.

E. EQUITY

	2013 £	2012 £
Authorised:		
410 million (2012: 410 million) ordinary shares of €0.0001 each	31,750	31,750
Issued and fully paid:		
224.8 million (2012: 174.6 million) ordinary shares of €0.0001 each	18,418	14,174

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:

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 21 February 2013 of 50 million ordinary shares. The proceeds of the equity raising net of deduction of commissions and expenses were £232 million.

During the year, the Company issued 231,153 shares at a premium of £1 million in order to satisfy its obligation to employees under the Group's share schemes.

2012

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

During 2012, the Company did not issue any shares to employees under the Group's share schemes.

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.

Certain of Phoenix Group Holding's subsidiaries are subject to restrictions on the amounts of funds they may transfer in the form of cash dividends or otherwise to their parent companies. Distribution of the 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.

There is a restriction on the ability of certain subsidiaries to distribute funds to Phoenix Group Holdings as a result of restrictions imposed by the Group's two main credit agreements, namely the Pearl Facility and the Impala Facility (as described in note 23 to the consolidated financial statements).

Details of shares held by the Phoenix Group Holdings Employee Benefit Trust and Phoenix Life Assurance Limited (subsidiaries of the Company) are included in note 18 to the consolidated financial statements.

F. BORROWINGS

	Carrying value		Fair value	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Loans 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.

On 16 July 2010, the Company was granted a loan from Impala Holdings Limited of £2.5 million. The loan accrues interest at six month LIBOR plus 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 (2012: £0.1 million) was accrued during the year. The balance outstanding at 31 December 2013, was £2.8 million (2012: £2.7 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.

There were no fair value gains or losses recognised in comprehensive income.

G. DERIVATIVES

	Carrying value		Fair value	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Warrants over shares in Phoenix Group Holdings	**5**	3	**5**	3
Amount due for settlement after 12 months	**5**	3		

The Company has in issue a number of 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.

PARENT COMPANY ACCOUNTS CONTINUED

H. ACCRUALS AND DEFERRED INCOME

	2013 £m	2012 £m
Accruals and deferred income	**5**	–
Amount due for settlement after 12 months	**–**	–

I. INVESTMENTS IN GROUP ENTITIES

	2013 £m	2012 £m
Cost		
At 1 January	**1,018**	1,008
Additions	**290**	10
At 31 December	**1,308**	1,018
Impairment		
At 1 January and 31 December	**–**	–
Carrying amount		
At 31 December	**1,308**	1,018

On 27 February 2013, the Company made capital contributions of £116 million to each of PGH (TC1) Limited and PGH (TC2) Limited.

On 25 April 2013, the Company received an £8 million dividend from Opal Reassurance Limited in the form of preference shares in the company.

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 44 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	
	2013 £m	2012 £m	2013 £m	2012 £m
Investment in collective investment schemes	**6**	–	**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	
	2013 £m	2012 £m	2013 £m	2012 £m
Loans due from PGH (LCA) Limited and PGH (LCB) Limited	**148**	161	**246**	223
Loans due from PGH (MC1) Limited and PGH (MC2) Limited	**84**	70	**186**	149
Loans due from other Group Entities	**12**	1	**1**	1
	244	232	**433**	373
Amount due for settlement after 12 months	**244**	232		

All loans and receivables balances are due from Group entities.

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, £143.7 million was due (2012: £128 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, £84.2 million was due (2012: £70 million).

On 12 December 2011, the Company, PGH (LCA) Limited and PGH (LCB) Limited, became party to a joint £77.1 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 £0.2 million was capitalised during the year (2012: £1.6 million) and £28.8 million was repaid (2012: £48.2 million). At 31 December 2013, £4.6 million was due (2012: £33.2 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 2013, £11 million was drawndown against this facility. 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.

No loans are considered to be past due or impaired.

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.

There were no fair value gains or losses recognised in comprehensive income.

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

	2013 £m	2012 £m
Bank and cash balances	**1**	16
Short-term deposits (including demand and time deposits)	**8**	–
	9	16

M. CASH FLOWS FROM OPERATING ACTIVITIES

	2013 £m	2012 £m
Profit for the year before tax	**92**	55
Adjustments to reconcile profit for the year to cash flows from operating activities		
Interest income from other Group entities	**(49)**	(53)
Dividends received	**(58)**	(8)
Share-based payment charge	**6**	5
Net (increase)/decrease in investment assets	**(6)**	1
Net increase in working capital	**90**	3
Cash generated by operations	**75**	3

PARENT COMPANY ACCOUNTS CONTINUED

N. RECONCILIATIONS BETWEEN CONSOLIDATED EQUITY AND INCOME AND PARENT COMPANY EQUITY AND INCOME

RECONCILIATION BETWEEN CONSOLIDATED EQUITY AND PARENT COMPANY EQUITY

	2013 £m	2012 £m
Consolidated equity attributable to owners of the parent	**1,909**	1,658
Retained earnings relating to Group entities and consolidation adjustments	**(468)**	(428)
Parent company equity attributable to owners	**1,441**	1,230

RECONCILIATION BETWEEN CONSOLIDATED INCOME AND PARENT COMPANY INCOME

	2013 £m	2012 £m
Consolidated comprehensive income for the year attributable to owners of the parent	**141**	72
Earnings of Group entities and consolidation adjustments	**(49)**	(17)
Parent company comprehensive income for the year attributable to owners	**92**	55

O. CAPITAL AND RISK MANAGEMENT

The Company's capital comprises share capital and all reserves. At 31 December 2013, total capital was £1,441 million (2012: £1,230 million). The movement in capital in the year comprises the retained profit for the year of £92 million (2012: £55 million profit), proceeds of the equity raising net of associated fees and commission of £233 million (2012: £nil), payment of dividend of £120 million (2012: £72 million, net of £1 million of shares issued in lieu of dividend), and a credit to equity for equity-settled share-based payments of £6 million (2012: £5 million).

There are no externally imposed capital requirements on the Company. The Company's capital is monitored by the Directors and managed on an on-going 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 39 to the consolidated financial statements.

The primary operation of the Company is to manage its investment in subsidiaries. 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.

P. 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.

Q. DIRECTORS' REMUNERATION

Details of the remuneration of the Directors' of Phoenix Group Holdings is included in the Remuneration report on pages 68 to 89 of the Annual Report and Accounts.

R. 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 42.

During the year ended 31 December 2013, the Company entered into the following transactions with Group entities:

	2013 £m	2012 £m
Dividends received	**58**	8
Interest received on loans and receivables due from Group entities	**18**	23
	76	31

Amounts due from related parties at the end of the year:

	2013 £m	2012 £m
Loans due from Group entities	**244**	232
Other amounts due from Group entities	**5**	8
	249	240
Amount due for settlement after 12 months	**244**	232

Amounts due to related parties at the end of the year:

	2013 £m	2012 £m
Loans due to Group entities	**3**	3
Other amounts due to Group entities	**118**	38
	121	41
Amount due for settlement after 12 months	**3**	3

S. 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.

T. EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting date are included in note 45 to the consolidated financial statements.

H Davies
C Bannister
J McConville
A Barbour
R P Azria
D Barnes
I Cormack
T Cross Brown
M Dale
I Hudson
D Woods

St Helier, Jersey
25 March 2014

OTHER INFORMATION

PROPOSAL FOR PROFIT APPROPRIATION

Profits for the period have been transferred to retained earnings. Dividends on ordinary shares of £120 million have been charged against share premium, as permitted by Cayman Companies law.

On 25 March 2014, the Board recommended a final dividend of 26.7p per share (2012: 26.7p) for the year ended 31 December 2013. Payment of the final dividend will be in cash and is subject to compliance with the processes set out in the Group's main credit facilities and shareholder approval at the AGM on 30 April 2014. If the proposed dividend is approved by shareholders, Phoenix Group Holding's shares will be quoted ex-dividend on 2 April 2014.

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 and Ignis; 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:

31 DECEMBER 2013

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	1,439	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[4]	292	(88)	2,204	58	2,466
As at 31 December 2013	**9,500**	**4,890**	**33,070**	**11,093**	**58,553**
Collective investment schemes					5,332
UKCPT					584
Cash held in other Group entities					1,085
General insurance business					9
Corporate derivative liabilities					(5)
Adjustments on consolidation					1
Total Group consolidated assets					65,559
Comprised of:					
Investment property					1,603
Financial assets					56,888
Cash and cash equivalents					9,224
Derivative liabilities					(2,156)
					65,559

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 £1,789 million (2012: £1,683 million), policy loans of £13 million (2012: £16 million), other loans of £67 million (2012: £22 million), net derivatives of £211 million (2012: £647 million) and other investments of £807 million (2012: £839 million).

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES CONTINUED

31 DECEMBER 2012

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

1 As a result of the reinsurance agreement entered into with Guardian Assurance Limited ('Guardian') effective 1 July 2012, £5.1 billion of shareholder financial assets were transferred to Guardian. These assets were made up of £610 million of cash and cash equivalents, £1,934 million of gilts and £2,580 million of bonds. Subsequent to this transfer, £292 million of gilts were purchased to rebalance the remaining portfolio of financial assets.

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

31 DECEMBER 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 ('ABS')	**577**	**349**	**1,051**	**64**	**2,041**
As at 31 December 2013	**7,190**	**4,021**	**17,665**	**1,495**	**30,371**

31 DECEMBER 2012

Analysis by type of debt securities	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Gilts	1,478	2,369	10,255	800	14,902
Other government and supranational[1]	867	703	1,995	150	3,715
Corporate – financial institutions	1,974	581	3,721	184	6,460
Corporate – other	2,283	536	3,723	517	7,059
Asset backed securities ('ABS')	232	424	918	21	1,595
As at 31 December 2012	6,834	4,613	20,612	1,672	33,731

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

The life companies' debt portfolio was £30.4 billion at 31 December 2013. Shareholders had direct exposure to £11.2 billion of these assets (including supported participating funds), of which 95% of rated securities were investment grade. 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 45% of the debt portfolio in respect of shareholder exposure, or £5.1 billion, at 31 December 2013. 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:

31 DECEMBER 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**
As at 31 December 2013	**2,277**	**2,810**	**10,959**	**776**	**16,822**

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES CONTINUED

31 DECEMBER 2012

Analysis of sovereign and supranational debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,482	2,369	10,356	800	15,007
Supranationals	396	380	669	57	1,502
USA	3	17	18	23	61
Germany	425	286	967	26	1,704
France	4	–	21	2	27
Netherlands	17	–	57	3	77
Portugal	–	–	–	–	–
Italy	–	–	–	5	5
Ireland	–	–	–	–	–
Greece	–	–	–	–	–
Spain	–	4	–	2	6
Other – non-Eurozone	11	7	128	27	173
Other – Eurozone	7	9	34	5	55
As at 31 December 2012	2,345	3,072	12,250	950	18,617

At 31 December 2013, the life companies had £4 million shareholder exposure to sovereign debt of the Peripheral Eurozone, defined as Portugal, Italy, Ireland, Greece and Spain. This exposure has remained at the same level since 31 December 2012.

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 extra 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:

31 DECEMBER 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**
As at 31 December 2013	**2,051**	**513**	**3,417**	**216**	**6,197**

31 DECEMBER 2012

Analysis of financial institution corporate debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,172	437	2,141	139	3,889
USA	319	81	547	18	965
Germany	73	4	132	–	209
France	63	1	84	2	150
Netherlands	225	41	516	22	804
Portugal	–	–	–	–	–
Italy	2	–	15	–	17
Ireland	–	–	1	–	1
Greece	–	–	–	–	–
Spain	3	1	14	–	18
Other – non-Eurozone	68	13	201	3	285
Other – Eurozone	49	3	70	–	122
As at 31 December 2012	1,974	581	3,721	184	6,460

The life companies had £32 million shareholder exposure to financial institution corporate debt of the Peripheral Eurozone at 31 December 2013. This exposure has increased, from £6 million at 31 December 2012, as a result of one of the funds increasing its exposure in Italian insurance companies, which was done as part of the general investment policy. The £2,564 million (2012: £2,555 million) total shareholder exposure comprised £1,597 million (2012: £1,771 million) senior debt, £367 million (2012: £321 million) Tier 1 debt and £600 million (2012: £463 million) Tier 2 debt.

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES CONTINUED

INDIRECT EXPOSURE

The £2,564 million shareholder exposure to financial institution corporate debt comprised £1,653 million (2012: £1,445 million) bank debt and £911 million (2012: £1,110 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:

31 DECEMBER 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
As at 31 December 2013	**2,285**	**349**	**2,238**	**439**	**5,311**

31 DECEMBER 2012

Analysis of corporate – other debt security holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	1,258	260	2,019	420	3,957
USA	257	78	401	17	753
Germany	89	35	135	5	264
France	149	82	276	14	521
Netherlands	192	52	386	20	650
Portugal	–	–	6	–	6
Italy	54	1	81	4	140
Ireland	6	–	27	–	33
Greece	4	–	4	–	8
Spain	29	–	57	3	89
Other – non-Eurozone	113	21	187	16	337
Other – Eurozone	132	7	144	18	301
As at 31 December 2012	2,283	536	3,723	517	7,059

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

31 DECEMBER 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
As at 31 December 2013	**577**	**349**	**1,051**	**64**	**2,041**

31 DECEMBER 2012

Analysis of ABS holdings by country	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
UK	176	330	635	21	1,162
USA	36	–	19	–	55
Germany	1	13	61	–	75
France	–	2	7	–	9
Netherlands	1	29	64	–	94
Portugal	–	–	1	–	1
Italy	–	5	15	–	20
Ireland	12	16	60	–	88
Greece	–	–	–	–	–
Spain	–	7	16	–	23
Other – non-Eurozone	5	5	6	–	16
Other – Eurozone	1	17	34	–	52
As at 31 December 2012	232	424	918	21	1,595

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES CONTINUED

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

31 DECEMBER 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**
As at 31 December 2013	**7,190**	**4,021**	**17,665**	**1,495**	**30,371**

97% of rated securities were investment grade at 31 December 2013 (2012: 97%). The percentage of rated securities that were investment grade in relation to the shareholder and policyholders' funds were 95% and 98% respectively (2012: 94% and 99% respectively).

31 DECEMBER 2012

Credit rating analysis of debt portfolio	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
AAA	2,746	3,677	13,709	720	20,852
AA	501	268	1,378	61	2,208
A	1,318	508	2,251	137	4,214
BBB	1,394	128	2,391	210	4,123
BB	288	14	219	14	535
B and below	359	–	66	–	425
Non-rated	228	18	598	530	1,374
As at 31 December 2012	6,834	4,613	20,612	1,672	33,731

MCEV SUPPLEMENTARY INFORMATION

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 10 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
25 March 2014

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 2013, which comprises the Summarised consolidated income statement – Group MCEV basis, MCEV earnings per ordinary share, Statement of consolidated comprehensive income – Group MCEV basis, Reconciliation of movement in equity – Group MCEV basis, Group MCEV analysis of earnings, Reconciliation of Group IFRS equity to MCEV net worth and related notes. The Phoenix Group MCEV supplementary information has been prepared by the Directors of Phoenix Group Holdings in accordance with the basis of preparation set out on pages 224 to 227.

DIRECTORS' RESPONSIBILITIES FOR THE PHOENIX GROUP MCEV SUPPLEMENTARY INFORMATION

The Directors are responsible for the preparation of this Phoenix Group MCEV supplementary information in accordance with the basis of preparation set out on pages 224 to 227 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 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 2013, has been prepared, in all material respects, in accordance with the basis of preparation set out on pages 224 to 227.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our opinion, we draw attention to pages 224 to 227 of the Phoenix Group MCEV supplementary information, which describe the basis of preparation. The Phoenix Group MCEV supplementary information is prepared to comply with the basis of preparation set out on pages 224 to 227. 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 15 June 2011 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 MATTERS

Ernst & Young Accountants LLP have reported separately on the IFRS consolidated financial statements of Phoenix Group Holdings for the year ended 31 December 2013. The information contained in the Phoenix Group MCEV supplementary information should be read in conjunction with the IFRS consolidated financial statements.

Ernst & Young LLP.

Ernst & Young LLP
London
25 March 2014

SUMMARISED CONSOLIDATED INCOME STATEMENT – GROUP MCEV BASIS

For the year ended 31 December 2013

	2013 £m	2012 £m
Life MCEV operating earnings	**401**	360
Management services operating profit	**32**	28
Ignis Asset Management operating profit	**49**	43
Group costs	**(27)**	(25)
Group MCEV operating earnings before tax	**455**	406
Economic variances on life business	**138**	24
Economic variances on non-life business	**(48)**	(6)
Other non-operating variances on life business	**(35)**	39
Non-recurring items on non-life business	**(61)**	(39)
Finance costs attributable to owners	**(140)**	(123)
Group MCEV earnings before tax	**309**	301
Tax on operating earnings	**(105)**	(99)
Tax on non-operating earnings	**(42)**	–
Total tax	**(147)**	(99)
Group MCEV earnings after tax	**162**	202

MCEV EARNINGS PER ORDINARY SHARE

For the year ended 31 December 2013

	2013	2012
Group MCEV operating earnings after tax		
Basic[1]	**165.5p**	177.1p
Diluted[2]	**165.3p**	177.0p
Group MCEV earnings after tax		
Basic[1]	**76.2p**	116.5p
Diluted[2]	**76.1p**	116.5p

1 Based on 212 million shares (2012: 173 million) as set out in note 15 of the IFRS consolidated financial statements.

2 Based on 212 million shares (2012: 173 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 23.25% (2012: 24.5%).

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME – GROUP MCEV BASIS

For the year ended 31 December 2013

	2013 £m	2012 £m
Group MCEV earnings for the year after tax	**162**	202
Other comprehensive income		
Remeasurements and pension scheme contributions on defined benefit pension schemes (net of tax)	**(16)**	(131)
Total comprehensive income for the year	**146**	71

RECONCILIATION OF MOVEMENT IN EQUITY – GROUP MCEV BASIS

For the year ended 31 December 2013

	2013 £m	2012 £m
Group MCEV equity at 1 January	**2,122**	2,118
Total comprehensive income for the year	**146**	71
Issue of ordinary share capital, net of associated commissions and expenses	**233**	–
Dividends paid on ordinary shares	**(120)**	(73)
Dividends paid on shares held by the employee trust and Group entities	**2**	–
Movement in equity for equity-settled share-based payments	**6**	5
Shares acquired by the employee trust	**(11)**	–
Shares issued in lieu of dividends	**–**	1
Total capital and dividend flows – external	**110**	(67)
Group MCEV equity at 31 December	**2,378**	2,122

GROUP MCEV ANALYSIS OF EARNINGS

For the year ended 31 December 2013

	Covered business MCEV £m	Non-covered business: Management services IFRS £m	Non-covered business: Asset Management IFRS £m	Non-covered business: Other Group companies[1] IFRS £m	Group MCEV £m
Group MCEV at 1 January 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 Comprises the Group holding companies that do not form part of the Phoenix Life and Ignis Asset Management divisions.

For the year ended 31 December 2012

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

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

RECONCILIATION OF GROUP IFRS EQUITY TO MCEV NET WORTH

For the year ended 31 December 2013

	2013 £m	2012 £m
Group net assets attributable to owners of the parent as reported under IFRS	**1,909**	1,658
Goodwill and other intangibles in accordance with IFRS removed (net of tax)	**(391)**	(431)
Value of in-force business in accordance with IFRS removed (net of tax)	**(1,083)**	(1,234)
Adjustments to IFRS reserving	**(144)**	(203)
Tax adjustments	**33**	6
Revalue listed debt to market value	**5**	123
Fair value adjustments[1]	**(4)**	4
Eliminate after tax pension scheme surpluses (including IFRIC 14 adjustments)[2]	**(210)**	(186)
Other adjustments	**6**	8
MCEV net worth attributable to owners of the parent	**121**	(255)
MCEV value of in-force business included (net of tax) as set out in note 2	**2,257**	2,377
Closing Group MCEV	**2,378**	2,122

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.

NOTES TO THE MCEV FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

OVERVIEW

The supplementary information on pages 220 to 232 has been prepared on a Market Consistent Embedded Value ('MCEV') basis except for the items described further below.

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

- risk-free rates have been defined as the annually compounded UK Government nominal spot curve plus 10 basis points rather than as a swap rate curve;
- no allowance for the cost of residual non-hedgeable risk ('CNHR') has been made because, in the opinion of the Directors, the Group operates a robust outsourcer model in terms of operational risk, does not write new business, is focused entirely on the back book, and has succeeded in closing out significant legacy risks. The theoretical value of CNHR is disclosed separately in note 1(b); and
- the asset management and management service companies' values are calculated on an IFRS basis. Under CFO Forum principles and guidance productivity gains should not be recognised until achieved. This treatment is inconsistent with the cost profile of a closed fund where continual cost reductions are expected to maintain unit costs as the business runs off. In the opinion of the directors, if the MCEV principles and guidance were to be applied to the asset management and the management service companies, it would not provide a fair reflection of the Group's financial position. These companies are therefore reported alongside the Group's other holding companies at their IFRS net asset value.

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

The Finance Act 2012 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.

The Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The new rules did not have a significant impact on the Group's MCEV.

COVERED BUSINESS

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

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

MCEV METHODOLOGY

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

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

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

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

b) Value of in-force business ('VIF')
The value of in-force covered business consists of the following components:

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

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

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

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

Present value of future profits ('PVFP')
The 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 145% of the Pillar 1 minimum regulatory capital requirement or 128% of the Pillar 2 minimum regulatory capital requirement (2012: 150% Pillar 1, 129% Pillar 2).

NOTES TO THE MCEV FINANCIAL STATEMENTS CONTINUED

1. BASIS OF PREPARATION CONTINUED

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 £25 million (2012: £52 million).

For other business the cost would be £105 million (2012: £127 million). This equates to an equivalent average cost of capital charge of 1.3% (2012: 1.5%). The level of capital assumed in this calculation is determined based on a 99.5% confidence level over a one year time horizon, consistent with the ICA methodology. Allowance is made for diversification benefits between non-hedgeable risks, but not between hedgeable and non-hedgeable risks.

c) Valuation of debt

Listed debt issued by the Group is valued at the market value quoted at the reporting date which is consistent with MCEV principles.

The National Provident Life Limited recourse bonds are backed by surpluses that are expected to emerge on blocks of its unit-linked and unitised with-profits business. This securitisation has been valued on a cash flow basis, allowing for payments expected to be due based on the projected level of securitised surpluses emerging. The full VIF of the securitised unit-linked and unitised with-profits business is expected to be payable to bondholders; therefore, no additional value accrues to the embedded value.

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

d) Taxation

Full allowance has been made for the value of tax that would become payable on the transfer of surplus assets out of non-profit funds. This allowance reflects the projected pace of releases of surplus from non-profit funds that is not required to support with-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 2013, the Group MCEV included £191 million in respect of these policies (2012: £177 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 does not anticipate that its ultimate contributions into the pension schemes would result in an unrecoverable surplus.

h) Events after the reporting period
As part of the Budget announced on 19 March 2014, the Government outlined proposals that would remove current restrictions on how people access their pension savings upon retirement. Whilst the guidance remains draft, such proposals have the potential to impact the levels of future new annuity business to be written by the Group.

The proposals are yet to be enacted in legislation, and therefore their impact remains uncertain. No adjustments have been made to the MCEV supplementary information in this regard.

On 25 March 2014, the Group and Standard Life Investments signed a disposal agreement under which Standard Life Investments agreed to acquire the entire issued share capital of Ignis Asset Management, in return for headline consideration of £390 million. The consideration will be payable in cash on completion, subject to certain adjustments in relation to the regulatory capital resources of Ignis Asset Management at completion.

Ignis Asset Management contributed £108 million to the Group MCEV as at 31 December 2013. The contribution of Ignis Asset Management to Group MCEV operating earnings before tax and Group MCEV earnings after tax for the year ended 31 December 2013 was £49 million and £36 million respectively.

Completion of the divestment is subject to the Company obtaining regulatory approval and the divestment is anticipated to complete by the end of the second quarter of 2014.

2. COMPONENTS OF THE MCEV OF COVERED BUSINESS

	2013 £m	2012 £m
Net worth	**802**	886
PVFP	**2,301**	2,450
TVFOG	**(39)**	(46)
COC	**(5)**	(27)
Total VIF	**2,257**	2,377
	3,059	3,263

The net worth of covered business of £802 million at 31 December 2013 (2012: £886 million) consists of £529 million of free surplus in excess of required capital (2012: £514 million).

NOTES TO THE MCEV FINANCIAL STATEMENTS CONTINUED

3. ANALYSIS OF COVERED BUSINESS MCEV EARNINGS (AFTER TAX)

	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)[1]	**27**	**56**	**83**
Expected existing business contribution (in excess of reference rate)[2]	**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**

1 Expected existing business contribution (reference rate) represents the expected return on the opening MCEV at the long-term risk-free rate at 2.42% (2012: 2.58%).

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

	Net worth £m	VIF £m	Total Life MCEV £m
Life MCEV at 1 January 2012	1,175	2,629	3,804
New business value	10	10	20
Expected existing business contribution (reference rate)[1]	36	67	103
Expected existing business contribution (in excess of reference rate)[2]	36	45	81
Transfer from VIF to net worth	198	(198)	–
Experience variances	40	(27)	13
Assumption changes	(23)	(14)	(37)
Other operating variances	66	26	92
Life MCEV operating earnings	363	(91)	272
Economic variances	(66)	84	18
Other non-operating variances	211	(181)	30
Total Life MCEV earnings	508	(188)	320
Capital and dividend flows	(797)	(64)	(861)
Life MCEV at 31 December 2012	886	2,377	3,263

4. NEW BUSINESS

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

	Premium £m	MCEV £m	MCEV/ Premium
Year ended 31 December 2013	**286**	**18**	**6%**
Year ended 31 December 2012	414	20	5%

5. MATURITY PROFILE OF BUSINESS

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

	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 2013	**997**	**576**	**344**	**212**	**172**	**2,301**
31 December 2012	1,058	596	369	231	196	2,450

6. ASSUMPTIONS

REFERENCE RATES

(a) Risk-free rates

Risk-free rates are based on the annually compounded UK Government bond nominal spot curve plus 10 basis points, extrapolated as necessary to meet the term of the liabilities.

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

	2013		2012	
Term	Gilt yield + 10 bps	Swap yield	Gilt yield + 10 bps	Swap yield
1 year	**0.51%**	**0.61%**	0.32%	0.57%
5 years	**2.08%**	**2.16%**	1.01%	1.04%
10 years	**3.32%**	**3.11%**	1.99%	1.92%
15 years	**3.79%**	**3.48%**	2.70%	2.58%
20 years	**3.92%**	**3.60%**	3.18%	2.96%

Had the Group used the swap rate curve as set out in the CFO Forum principles, the MCEV would have been £160 million lower (2012: £168 million lower).

(b) Liquidity premiums

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

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

	2013	2012
Additional yield over risk-free rates	**0.36%**	0.60%

The Group holds £4.1 billion (2012: £3.6 billion) of corporate bonds which are used to back annuity in-payment liabilities in non-profit funds. The MCEV includes an aggregate credit default provision of £210 million (2012: £312 million), to fund against the risk of default on these corporate bonds.

NOTES TO THE MCEV FINANCIAL STATEMENTS CONTINUED

6. ASSUMPTIONS CONTINUED

INFLATION

For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index ('RPI') as at 31 December 2013, was taken from the implied inflation curve at a term appropriate to the liabilities. The rate of increase in UK National Average Earnings inflation is assumed to be RPI plus 100 basis points as at 31 December 2013 (2012: RPI plus 100 basis points).

STOCHASTIC ECONOMIC ASSUMPTIONS

The time value of options and guarantees is calculated using an economic scenario generator. The model is calibrated to market conditions as at 31 December 2013. The scenario generator and calibration are consistent with that used for realistic balance sheet reporting.

A LIBOR Market Model is used to generate risk-free rates over a complete yield curve, calibrated to the UK nominal spot curve plus 10 basis points, consistent with the deterministic projections. Interest rate volatility is calibrated to swaption implied volatilities, as per the sample below.

	Option term (years)					
Interest rate volatility	**5**	**10**	**15**	**20**	**25**	**30**
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%**

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

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

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

	Term (years)					
Equity implied volatility (ATM)	**5**	**10**	**15**	**20**	**25**	**30**
2013	**18.9%**	**22.1%**	**22.4%**	**22.9%**	**23.3%**	**23.7%**
2012	23.4%	26.3%	27.6%	28.3%	28.7%	29.0%

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

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

OPERATING EARNINGS

The Group uses normalised investment returns in calculating the expected existing business contribution. The Group considers that an average return over the remaining term of 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:

	2013	2012
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 management services agreements with the Group's management service companies, adjusted to allow for additional costs incurred directly by the life companies, including, for example, regulatory fees and one-time expenses.

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

VALUATION OF DEBT AND NON-CONTROLLING INTERESTS

The Group's consolidated balance sheet as at 31 December 2013, includes Perpetual Reset Capital Securities with principal outstanding of £425 million (2012: £425 million) and subordinated debt with a face value of £200 million (2012: £200 million). These listed securities have been included within the MCEV at their market value quoted at the reporting date.

The table below summarises the value of these debt obligations without adjustment for internal holdings in the Perpetual Reset Capital Securities and the Pearl facility:

	2013		2012	
	Face value (including accrued interest) £m	**Market value £m**	Face value (including accrued interest) £m	Market value £m
Listed debt and non-controlling interests				
Perpetual Reset Capital Securities	**444**	**377**	444	286
Phoenix Life Limited subordinated debt	**211**	**205**	211	173

Unlisted debt has been included at face value:

	2013 Face value £m	2012 Face value £m
Unlisted debt		
Pearl and Impala facilities	**1,612**	2,307
Royal London PIK notes and facility	**121**	116

NOTES TO THE MCEV FINANCIAL STATEMENTS CONTINUED

7. SENSITIVITY TO ASSUMPTIONS

The table below summarises the key sensitivities of the MCEV of covered business at 31 December 2013:

	2013 Life MCEV £m	2012 Life MCEV £m
(1) Base	**3,059**	3,263
(2) 1% decrease in risk-free rates	**11**	91
(3) 1% increase in risk-free rates	**7**	(95)
(4) 10% decrease in equity market values	**(41)**	(70)
(5) 10% increase in equity market values	**47**	69
(6) 10% decrease in property market values	**(46)**	(48)
(7) 10% increase in property market values	**45**	47
(8) 100 bps increase in credit spreads[1]	**(143)**	(150)
(9) 100 bps decrease in credit spreads[1]	**148**	175
(10) 25% increase in equity/property implied volatilities	**(7)**	(9)
(11) 25% increase in swaption implied volatilities	**6**	(1)
(12) 25% decrease in lapse rates and paid-up rates	**(25)**	(38)
(13) 5% decrease in annuitant mortality	**(122)**	(148)
(14) 5% decrease in non-annuitant mortality	**28**	29
(15) Required capital equal to the minimum regulatory capital[2]	**1**	15

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.

ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

Our Annual General Meeting ('AGM') will be held on 30 April 2014 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

Price (rebased to PHNX) pence

SHAREHOLDER PROFILE AS AT 31 DECEMBER 2013

Range of shareholdings	No. of shareholders	%	No. of shares	%
1-1,000	441	35.97	194,552	0.09
1,001–5,000	369	30.10	832,388	0.37
5,001–10,000	80	6.53	564,915	0.25
10,001–250,000	233	19.00	14,905,790	6.63
250,001–500,000	30	2.45	11,306,838	5.03
500,001 and above	73	5.95	197,013,818	87.63
Total	1,226	100.00	224,818,301	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
c/o 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.

SHAREHOLDER INFORMATION
CONTINUED

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 http://www.thephoenixgroup.com/investor-relations.aspx.

ORDINARY SHARES – 2013 FINAL DIVIDEND

Ex-dividend date	2 April 2014
Record date	4 April 2014
Payment date for the recommended final dividend	2 May 2014

GROUP FINANCIAL CALENDAR FOR 2014

Annual General Meeting	30 April 2014
Announcement of first quarter Interim Management Statement	1 May 2014
Announcement of unaudited six months' Interim Results	21 August 2014
Announcement of third quarter Interim Management Statement	23 October 2014

FORWARD-LOOKING STATEMENTS

The 2013 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', 'expects', 'plans', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking (although their absence does not mean that a statement is not forward-looking). 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 the effect of the PRA's planned 'ICA+' regime and ultimate transition to the European Union's 'Solvency II' requirements on the Group's capital maintenance requirements
- The impact of inflation and deflation
- Market competition
- Changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates)
- The timing, impact and other uncertainties of future acquisitions or combinations within relevant industries
- Risks associated with arrangements with third parties
- Inability of reinsurers to meet obligations or unavailability of reinsurance coverage
- The impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within the 2013 Annual Report and Accounts. The Group undertakes no obligation to update any of the forward-looking statements contained within the 2013 Annual Report and Accounts or any other forward-looking statements it may make or publish.

The 2013 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 2013 Annual Report and Accounts is, or should be construed as a profit forecast.

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 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

GLOSSARY
CONTINUED

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 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	Gross shareholder debt 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
GROUP AUM	Group assets under management – This represents life company assets (excluding collateral on stock lending arrangements), holding company cash and third party assets managed by Ignis Asset Management
HMRC	Her Majesty's Revenue and Customs
HOLDING COMPANIES	Refers to Phoenix Group Holdings, 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
ICA+	The PRA has indicated that due to continuing uncertainties over the timetable for the introduction of Solvency II, it will work with the industry to enhance the existing Pillar 2 ICA regime to an 'ICA+' regime leveraging the investments firms have made preparing for Solvency II
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
LDI	Liability Driven Investment – Refers to investing in assets which move in line with the value of liabilities. Ignis LDI strategies typically involve purchasing a mix of government bonds and other instruments which have similar sensitivity to interest rates and inflation as the liabilities, to protect against changes in the deficit between asset and liability values
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 240), 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) and all trading companies within Ignis Asset Management
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
PEARL BUSINESSES	PGH (LCA) Limited, PGH (LCB) Limited, PGH (TC1) Limited, PGH (TC2) Limited and Opal Reassurance Limited, together with their subsidiaries, being the five companies acquired by Phoenix Group Holdings on 2 September 2009
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
SCRIP ISSUE	The issue of new shares to existing shareholders in lieu of a cash dividend
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

GLOSSARY
CONTINUED

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 now 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

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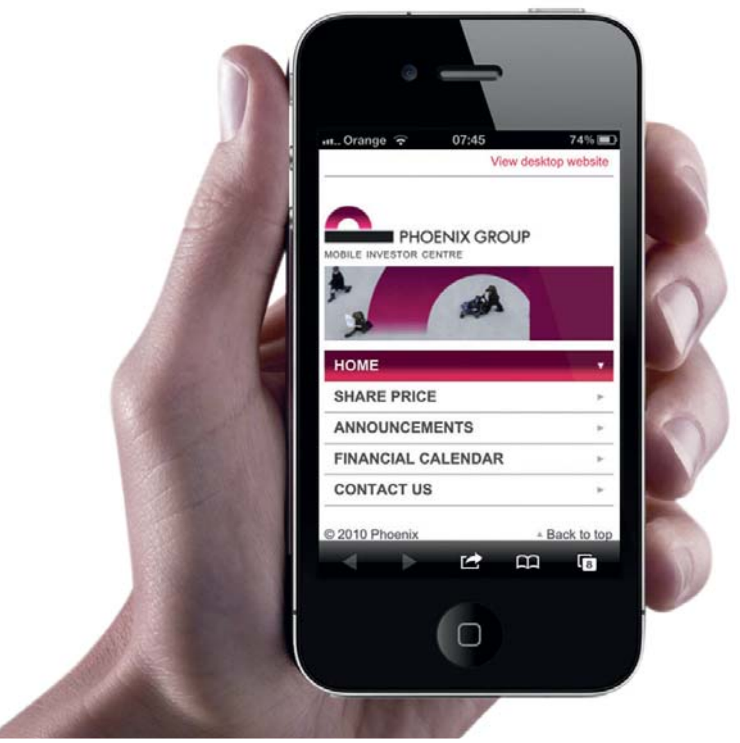
REDUCING OUR ENVIRONMENTAL IMPACT

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.



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PHOENIX GROUP HOLDINGS ANNUAL REPORT AND ACCOUNTS 2013